

EB 18 1986

4. P84/10 : 99-34
**OVERSIGHT ON OPERATION OF UNITED STATES
POSTAL SERVICE**

COMPLETED

223

mf ORIGINAL

JOINT HEARINGS

BEFORE THE

**SUBCOMMITTEE ON
POSTAL OPERATIONS AND SERVICES**

AND THE

**SUBCOMMITTEE ON
POSTAL PERSONNEL AND MODERNIZATION**

OF THE

**COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES**

NINETY-NINTH CONGRESS

FIRST SESSION

JUNE 11, JULY 9, AND OCTOBER 3, 1985

Serial No. 99-34

Printed for the use of the
Committee on Post Office and Civil Service



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1986

56-628 O

BEST COPY AVAILABLE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

WILLIAM D. FORD, Michigan, *Chairman*

WILLIAM (BILL) CLAY, Missouri
PATRICIA SCHROEDER, Colorado
STEPHEN J. SOLARZ, New York
ROBERT GARCIA, New York
MICKEY LELAND, Texas
GUS YATRON, Pennsylvania
MARY ROSE OAKAR, Ohio
GERRY SIKORSKI, Minnesota
FRANK McCLOSKEY, Indiana
GARY L. ACKERMAN, New York
MERVYN M. DYMALLY, California
RON DE LUGO, Virgin Islands
MORRIS K. UDALL, Arizona

GENE TAYLOR, Missouri
BENJAMIN A. GILMAN, New York
CHARLES PASHAYAN, Jr., California
FRANK HORTON, New York
JOHN T. MYERS, Indiana
DON YOUNG, Alaska
JAMES V. HANSEN, Utah
DAN BURTON, Indiana

TOM DEYULIA, *Staff Director*

ROBERT E. LOCKHART, *General Counsel*

PATRICIA F. REISLER, *Deputy Staff Director and Chief Clerk*

JOSEPH A. FISHER, *Minority Staff Director*

SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES

MICKEY LELAND, Texas, *Chairman*

WILLIAM (BILL) CLAY, Missouri
ROBERT GARCIA, New York
RON DE LUGO, Virgin Islands

FRANK HORTON, New York
CHARLES PASHAYAN, Jr., California
JAMES V. HANSEN, Utah

LOUIS DELGADO, *Subcommittee Staff Director*

SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION

FRANK McCLOSKEY, Indiana, *Chairman*

WILLIAM (BILL) CLAY, Missouri
MERVYN M. DYMALLY, California

DON YOUNG, Alaska
DAN BURTON, Indiana

WILLIAM J. FINCH, *General Counsel/Subcommittee Staff Director*

CONTENTS

JUNE 11, 1985

Statement of:

Hon. Paul Carlin, Postmaster General, U.S. Postal Service, accompanied by William R. Cummins, Senior Assistant Postmaster General, Finance Group, U.S. Postal Service; Ms. Jackie A. Strange, Deputy Postmaster General, U.S. Postal Service; Louis A. Cox, General Counsel, U.S. Postal Service.....	Page 4
---	-----------

JULY 9, 1985

Statement of:

John R. McKean, Chairman, U.S. Postal Service Board of Governors, accompanied by George W. Camp, Vice Chairman; John L. Ryan, Governor; Peter E. Voss, Governor; Ruth O. Peters, Governor; William J. Sullivan, Governor; and John N. Griesemer, Governor.....	96
--	----

OCTOBER 3, 1985

Statement of:

Janet Steiger, Chairman, Postal Rate Commission, accompanied by Henry R. Folsom, Vice Chairman; John W. Crutcher, Commissioner; and Patti Birge Tyson, Commissioner.....	148
William J. Anderson, Director, General Government Division, General Accounting Office; accompanied by Willis Elmore, Group Director.....	193
Prepared statement—	
American Mailers, Detroit, Mich., S. P. Katz, president.....	144
Hon. Don Young, a Member of Congress from the State of Alaska.....	146

(iii)

OVERSIGHT ON OPERATION OF U.S. POSTAL SERVICE

TUESDAY, JUNE 11, 1985

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES AND SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE,

Washington, DC.

The joint subcommittees met in joint session, pursuant to call, at 10 a.m., in room 311, Cannon House Office Building, Hon. Frank McCloskey (chairman of the Subcommittee on Postal Personnel and Modernization) presiding.

Mr. McCloskey. It's a little bit after 10 o'clock, so why don't we just start.

Personally I would like to welcome Postmaster General Carlin to the first set of oversight hearings since you have assumed your present position, sir. Glad to have you here today. I might say that this is the first hearing for me since I assumed the chairmanship of the subcommittee, so speaking for myself, I have a lot to learn.

I only wish that the current situation was more positive and hopeful than it is.

Mr. Carlin, to use your own words of May 14, 1985:

The fact is, our current financial situation is far from healthy. This is the first year of a rate cycle—a time when we should be flush with new cash. Instead, we are confronted by the specter of a half-billion dollar deficit.

These are indeed discouraging words to the mail using public who just recently experienced a postage increase. They are not likely to be supportive of another increase in the immediate future without a very persuasive justification.

And to date I have seen very little in terms of such a justification. I might say from reading your statements, sir, that your solutions are very general at this point. We need a lot more specifics. I know and would hope you are really underway on a specific program.

You have stated in the past that this is principally a management problem and as such, it is amenable to a management solution. It is my most sincere hope you are forthcoming with these solutions very soon. I realize that you are to some extent a victim of a situation which you inherited as are we sitting here on these subcommittees.

But the real victims are all the people in this country who rely on the Postal Service for affordable, dependable and efficient service.

I, for one, am not prepared to tell them to settle for less because we have "a management problem."

I am also not prepared to place the fault for such a problem with the rank and file employees and I do congratulate you on your refusal to do this in your comments of May 15.

I hope your statement today and the information that will come forth from this hearing will help us understand why we are facing a possible half-billion-dollar deficit or more—as some of the figures I have seen run up to three-quarters of a billion dollars by the end of this fiscal year—when you had projected a surplus and why so many known events produced such unplanned results.

Thank you.

Chairman Leland.

Mr. LELAND. Thank you very much, Mr. Chairman.

I want to thank the Postmaster General for all the cooperation he has shown to me and my staff. You have been very helpful and I really appreciate that.

I also have an opening statement that states in full some of the issues that I would like to raise at this time. I think that given the time constraints that I will forego that and ask the chairman to hold the record open for the inclusion of my statement.

I would also like to congratulate, the Postmaster General for the job that he has done to date and say that I appreciate the relationship that you and I have developed. I look forward to working with you more closely.

Thank you.

[The statement of Mr. Leland follows:]

STATEMENT OF CONGRESSMAN MICKEY LELAND

Welcome to this joint hearing of the Subcommittee on Postal Operations and Services and the Subcommittee on Postal Personnel and Modernization. Our subject today is the status of the U.S. Postal Service. Postmaster General Paul Carlin is making his first appearance before our committee today and I want to take this opportunity to congratulate him on his appointment and on the fine job he has done to date.

Mr. Carlin and the U.S. Postal Service are facing a very difficult situation. Only three months ago, rates were raised but the U.S. Postal Service is already in a deficit situation. Programs and policies that were put into effect prior to Mr. Carlin's appointment are not working and in fact, are creating some of the leading causes of the Postal Service's present difficulties.

The airline contracting system that went into effect in January is costing far more than expected and has not provided the level of service that was hoped for. This subcommittee expressed its concern about this system in a hearing last May, and will conduct another hearing on it next month.

The nine digit Zip Code is not attracting the level of usage that was hoped for. Estimates for usage this year have had to be drastically reduced from 20.9 billion pieces to only 6.8 billion. Continued low usage will make it necessary for a conversion to superior technology that can read an entire address instead of just the last line. The subcommittee will also address this issue in depth in a hearing later this month.

In this light, I want to commend Mr. Carlin for the way in which he has persevered during his first months in office. He has taken full responsibility for dealing with the results of failed policies that are not his doing and he has challenged his top managers to join him in tackling and solving the problems confronting the U.S. Postal Service.

I especially want to commend the Postmaster General for his efforts in the field of equal employment opportunity. His use of the Clark Study to develop new guidelines that ensure that minorities are properly considered for senior management ranks is an important step toward fairness. He has expanded the role of the E.E.O. staff and given them additional resources to do their job. He has also increased the

importance of E.E.O. performance in the evaluation of managers. Each of these actions has the potential to produce significant results, and I look forward to seeing additional steps taken toward providing equal employment opportunity in the U.S. Postal Service.

Mr. McCLOSKEY. Thank you, Mr. Chairman.

Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman.

I don't have an opening statement, but I just want to welcome the Postmaster General to the committee and to thank him for the forthright way he has been responding to my recent inquiries and the way that I think he is appropriately moving in terms of addressing the problems of underrepresentation of minorities in the Postal Service.

Thank you, Mr. Chairman.

Mr. McCLOSKEY. Mr. Dymally.

Mr. DYMALLY. Thank you very much, Mr. Chairman.

During my brief tenure as chairman of this subcommittee, I had the opportunity and pleasure to work with Mr. Carlin and I want to thank him for his responsiveness and congratulate him for his very decisive moves in the area of equal employment opportunities. I am glad to welcome him today at this hearing.

Mr. McCLOSKEY. Mr. Horton, the ranking minority member.

Mr. HORTON. Mr. Chairman, as you know, this is my first term on this subcommittee and committee, and it is my first opportunity to receive the annual report from the Postmaster General on the operation of the U.S. Postal Service.

Mr. Carlin, it's good to have you here with us today, and I look forward to your testimony.

Before you make your presentation, I want you to know one of my concerns, which I'm sure is the concern of other members. All of us have been reading of your projected \$500 million deficit. Although this figure should cause concern and prompt action, it should also be remembered that the Postal Service is a \$29 billion agency. I will have some specific questions about the deficit which I will certainly ask later.

However, I wanted you to know how critically important it is that this matter is addressed. It needs to be addressed for one very important reason, a deficit, any deficit, will be used by those who advocate repeal of the private express statute of the closure of thousands of rural post offices. We just can't allow that to happen.

The private express statute have produced the most efficient mail delivery system in the world. Matter of fact, one of my constituents came in to see me just this year in a little place called Savannah, NY, and he said one of the real miracles of America is the Postal Service, and the miracle is brought about because of the private express statute. And we certainly don't want that to be affected because of that deficit.

The rural post office is an essential part of that system, and I want to go on record as stating I will do everything I can to see that both of these, private express and rural post offices are preserved, so therefore, I do look forward to your testimony.

I know that you are aware of my strong support for the private express statute. I also know that you are aware of some proposals to eliminate them. And I hope that you can, as you go through

your testimony, that you can assure us that those statutes and those rural post offices are going to be preserved.

And, again, I want to thank you for being here with us today and with your other colleagues, who will be testifying.

Thank you very much.

Mr. McCLOSKEY. Thank you, Mr. Horton.

I see that Mr. de Lugo is here. Mr. de Lugo, do you have an opening statement or any remarks?

Mr. DE LUGO. I welcome our witness today, and wish him well in his new undertaking.

Mr. CARLIN. Thank you.

Mr. McCLOSKEY. Thank you, Mr. de Lugo.

Mr. Carlin, you may proceed, sir.

STATEMENT OF HON. PAUL CARLIN, POSTMASTER GENERAL U.S. POSTAL SERVICE, ACCOMPANIED BY WILLIAM R. CUMMINGS, SENIOR ASSISTANT POSTMASTER GENERAL, FINANCE, GROUP; JACKIE A. STRANGE, DEPUTY POSTMASTER GENERAL; AND LOUIS A. COX, GENERAL COUNSEL

Mr. CARLIN. Mr. Chairman, it is a pleasure to be here today to present the annual oversight testimony which is required by law.

I am accompanied on my immediate right by the Deputy Postmaster General, Jackie A. Strange; on my far right by the Senior Assistant Postmaster General for Finance, William R. Cummings; and on my immediate left by the General Counsel of the Postal Service, Louis A. Cox.

Since this is my first opportunity to appear as Postmaster General, I would like to start by summarizing my personal philosophy about what the Postal Service is all about.

Our responsibilities are primarily to the public and to our postal people. To the public, we owe good service, at acceptable prices, provided in a friendly manner.

To our people, our responsibilities include providing a climate in which everyone can contribute his or her skills and ideas toward improving the Postal Service, plus a full commitment to equal employment opportunity, and a safe work environment.

These are some of the topics I would like to discuss with you today.

SERVICE

Service comes first. It's our first and foremost responsibility. At the time of postal reorganization, the Congress put "Service" in our name to tell us that we exist as an organization to provide service to the public.

Overall our service today is good. There are some problem areas where the service is not as good as it should be. However, on the whole, the Postal Service is providing good service. Our latest performance numbers bear out this assessment. For the 4-week accounting period 8, which ended on May 10, overnight delivery performance stood at 96 percent for eligible stamped first-class mail and at 90 percent for metered mail.

These figures bettered the same period from the previous year by 1 percentage point in each case. Bulk mail performance has recorded its best performance during the past 5-year timeframe.

We have had, and still have, some problems to address.

The second quarter of this fiscal year showed a drop in meeting our second- and third-day delivery standards for both stamped and metered first-class mail, and we have had some trouble meeting our standards on express mail and time-critical newspapers and magazines.

Without excuses, there are objective, understandable causes for some of the problem areas. We were hit simultaneously by the sunset of the Civil Aeronautics Board, by the discontinuance of overnight air-freighter service, and by the strains of moving all second-class mailings into the preferential mail network.

We realize that explanation gives small comfort to our customers. Nevertheless, we do have a prescription for this situation and for any similar situations that might arise in the future. The prescription that we have shared with our management people is very straightforward; identify the reasons for the shortcoming, formulate an action plan, assign management responsibility, and then hold people accountable.

At the same time, we are keeping our customers fully and honestly informed about what we are doing. Our focus on the trouble spots is paying off.

Over the last four accounting periods—again, an accounting period is 4-weeks—performance improved 14 percentage points for stamped first-class mail targeted for second and third-day delivery, while metered mail has improved almost as much.

Our Express Mail next day service performance has improved more than 7 percentage points.

FINANCES

We have had to spend some money to continue to give service the priority it deserves, and our financial results show it. This is the first year of a rate cycle and, as was pointed out in the opening comments by some of the Members, it is a time in which we should be doing very well.

Instead, we find ourselves looking at the possibility of a half-billion-dollar deficit for this fiscal year. While the numbers are relatively small in the context of a nearly \$29 billion budget, we think that the timing in the rate cycle makes this a serious consideration that we—and we in this case means management—must correct.

For the second quarter of 1985, we lost a net amount of \$270 million compared to a planned loss of only \$106 million. The difference between these two amounts, \$164 million, results primarily from the fact that our operating costs have exceeded our expectations.

Unduly high operating costs are principally a management problem and, as such, are amenable to a management solution. The Deputy Postmaster General and I have been meeting with our top managers, both at Headquarters and from the field, urging them to join in what we recognize to be a difficult, protracted battle of the budget with our goal being to reduce this projected deficit to zero for this fiscal year.

I have been asked how I can expect our managers to reduce such a large prospective deficit to zero for this fiscal year.

It's a fact of life in our organization that personnel costs dominate our operating budget, accounting for nearly 83 percent of every dollar spent. It is reduction of those costs that must be our persistent, constant focus. We have no choice but to bring those costs back into line.

I believe that if the Postal Service puts renewed emphasis on its work-hour and overtime usage and improves management of related costs, it will build a system-wide awareness of how precious a commodity those work-hour expenses actually are. With that type of awareness, our people, if properly involved and given a chance to innovate, can and will find opportunities to avoid unnecessary expenditures.

MANAGEMENT PHILOSOPHY

My philosophy is that management means getting everyone fully involved throughout the organization. It requires focusing the combined skills and brain power of the organization on the tough job of providing improved service economically.

As Postmaster General, as one individual, I don't have all the answers that we need. But I firmly believe that the people in the Postal Service collectively have all the abilities that we need to develop the excellent service organization that we all want to see. We need to find ways to tap more of the available creative energies of our people in order to reach our full potential.

LEGISLATIVE ISSUES

What I have covered up to this point concerns financial prospects over which we have some control. There are a number of matters, principally of a legislative character, over which we have very little control, but which could greatly affect our financial health in fiscal year 1986 and beyond.

These are the changes proposed in the civil service retirement system and the proposed elimination of appropriations for revenue forgone. Postal management has testified previously before this committee that a yearly 2-percent increase in the Postal Service's contribution to the civil service retirement fund—which would continue to mount until full funding is reached—would cost the Postal Service more than \$266 million in fiscal year 1986, with much larger amounts in subsequent years.

We also estimate a net loss to the Postal Service of more than \$700 million for fiscal year 1986 if revenue forgone appropriations are eliminated without ending mailer subsidies.

The Postal Service cannot make up these large losses for fiscal year 1986 through the rate-making mechanism. I say that because that process involves a 15- to 18-month lag between the point in time when we decide to request a rate increase and the actual implementation of the new rates.

If the revenue forgone appropriation is reduced instead of eliminated, price adjustments will be needed for the subsidized categories in line with the degree of appropriations failure. Accompanying my testimony, I have an illustrative chart which provides infor-

mation on rates at different appropriation levels. That is appended to my statement.

EQUAL EMPLOYMENT OPPORTUNITY

Switching subjects, I want to speak now for a few minutes about equal employment opportunity in the Postal Service. EEO is not just the law governing the way we operate. It's essential to making the full use of the human resources that are available in the Postal Service. We have a good EEO record, but it's not good enough.

The Postal Service has been one of the biggest employers of minorities and women for decades. In the past, most of our women and minorities have held lower-level positions. In recent years, this has begun to change, with more minorities and women coming into our entry level supervisory positions as well as into our managerial ranks.

Tables showing the progress in increasing minority and female representation are appended to my statement.

Our goal is to ensure that minorities, women and the handicapped are given every opportunity so that they can be represented appropriately at all levels of the work force. Affirmative action plans which will enable us to accomplish this goal are designed to assist individuals to develop the skills and strengths that they need to achieve their career goals.

Our programs are also designed to eliminate any barriers that may stand in their way. The effectiveness of management in eliminating barriers is measured as part of the merit performance evaluation process. Along with service, safety, productivity, and budget, it forms a basis upon which each of our managers is evaluated.

In our Affirmative Action Division in the Office of EEO, we are focusing on several areas. One involves improving the professionalism of our EEO staff members in the field.

This means giving them the tools, the training, and the resources so that they can do a better job.

Another area involves the education of our managers and involves managers, postmasters, and supervisors. We are providing training for them in EEO law, including affirmative action, stressing fair treatment of employees by Postal Service supervisors and managers, and making performance indicators, which include EEO profiles of their individual area of responsibility increasingly available to our field managers.

This includes promotion rates and the work force makeup by grade levels. As we progress in these areas, we see new life and energy coursing through the Postal Service's EEO Affirmative Action Program.

Last month, we conducted a 2-week intensive training session or seminar here at Headquarters, for our EEO specialists across the Nation. In the past, our EEO specialists have focused their energies on the complaint processing side of EEO.

With this recent training, we have redefined their role and redirected their energies toward affirmative action goals. This means that they are going to be heavily involved in career counseling and the identification of high-potential minorities and women as major parts of their responsibility.

Our managers, our affirmative action professionals, and I, are giving affirmative action high priority. We have established EEO executive committees throughout our management levels, at the management sectional centers, the districts, and the regional offices, as well as with our officers here at Postal Service Headquarters.

In each post office which has at least 200 employees, we have established or are in the process of establishing affirmative action advisory committees. Each of those committees will meet on a regularly scheduled basis to assess, implement, and monitor projects and programs that are designed to promote EEO and affirmative action in all phases of postal operations.

The bottom line is to foster an organizational culture in the Postal Service which is based on respect for the individual. Not only will that approach assure that members of the protected groups are given fair and equitable treatment, but that they will be treated in the same manner as all employees throughout the organization expect to be treated.

I know that we have a lot to do. For instance, minorities are conspicuously underrepresented in the top management of the Postal Service. I recently issued a six-point directive designed to broaden the movement of minorities and women into and through the senior management ranks.

Among those six points is a requirement that for every executive vacancy, at least one minority or one woman executive or candidate be given serious consideration. By serious consideration, I mean that at least one highly qualified minority or woman will be contacted to assess his or her interest. If interested, he or she will be interviewed and seriously considered for appointment to that vacant position.

In the postal career executive service's candidate selection process, each of our executive screening committees and each executive evaluation panel is going to include at least one minority, and to the extent possible, one woman.

We have also directed that the Office of EEO will play a formal advisory role to our Executive Resources Board on minority and women's issues.

In the area of handicapped accommodation, I am proud to report that the Postal Service has been commended by the Equal Employment Opportunity Commission for exceeding the goal in its affirmative action plan to increase the representation of persons with severe disabilities.

We presently employ over 20,000 postal people who are handicapped. Seventeen percent of our new hires this past year were disabled veterans.

SAFETY AND HEALTH

The last area I want to touch on before turning to questions is safety and health. I am happy to report that our safety record is good and that it is continuing to get better.

The accident rate has declined from 9.2 accidents per 200,000 work hours during fiscal year 1983 to 8 accidents this year—that is through accounting period 8.

During the same period, the injury/illness rate dropped from 6.3 per 200,000 work hours to 4.9 and our lost workday frequency rate fell from 3.6 to 2.9.

For a little bit longer period of comparison, we can look back to 1977 when we started our concentrated emphasis on safety and health. In that year, we suffered 88,217 accidents. Seven years later in 1984, the figure was 57,801—a 34-percent reduction—and during that timeframe, our lost workday injuries have been cut in half.

We attribute this good safety record to a number of factors. For example, we employ the line management concept of safety administration, with the line management setting safety and health objectives and, having set those objectives, being held accountable for meeting and achieving them.

We have management safety and health committees, including an executive safety and health committee which I chair, which meet regularly to discuss safety and health initiatives and establish safety performance goals.

We have joint labor/management safety and health committees functioning throughout the Postal Service. There are approximately 1,350 such committees which meet regularly to review safety and health suggestions, as well as hazard reports.

These committees also discuss a variety of safety and health matters, including the enforcement of safety and health rules. Union representation on those joint committees participate in safety inspections and accompany managers during investigations of serious accidents.

Committee members receive training to assist them in carrying out those responsibilities. We also provide safety and health training to our craft people, employee representatives, supervisors, managers, postmasters, and safety and health professionals.

During this past year, fiscal year 1984, more than 158,500 postal people participated in those safety and health training programs.

Mr. Chairman, that concludes my prepared statement, and I would be happy to respond to any questions you have.

[The attachments follow:]

1
PREFERRED PRICE LEVELS AND PERCENTAGE INCREASES
FY 1986 Illustrative Examples 1/2/

	\$980,993,000 3/						
	Step 14	Step 15	\$871,000,000 4/3/	\$840,000,000 4/5/	Step 16 4/7/	\$500,000,000 4/	Regular
	Prices	Prices	Appropriation	Appropriation	Prices	Appropriation	(Commercial) Rates
<u>Second-Class Publications</u>							
In County	4.8¢	5.5¢ 14.6%	5.0¢ 20.8%	6.0¢ 25.0%	6.3¢ 31.3%	8.9¢ 85.4%	13.1¢ 172.9%
Nonprofit	6.2¢	7.2¢ 16.1%	7.5¢ 21.0%	7.0¢ 25.0%	8.2¢ 32.3%	10.1¢ 62.9%	13.0¢ 109.7%
Classroom	8.7¢	9.9¢ 13.8%	10.3¢ 18.4%	10.6¢ 21.8%	11.2¢ 28.7%	15.5¢ 78.2%	22.4¢ 155.2%
Science of Agriculture	12.3¢	12.3¢ 0.0%	12.3¢ 0.0%	12.3¢ 0.0%	12.3¢ 0.0%	12.6¢ 2.4%	13.1¢ 6.5%
Limited Circulation	7.2¢	8.2¢ 13.9%	8.6¢ 19.4%	8.9¢ 23.6%	9.3¢ 29.2%	10.8¢ 50.0%	13.1¢ 81.9%
<u>Third Class Nonprofit</u>							
Carrier Route Presort	3.4¢	4.1¢ 20.6%	4.4¢ 29.4%	4.5¢ 32.4%	4.8¢ 41.2%	6.2¢ 82.4%	8.3¢ 144.1%
Presorted to Five Digits	4.9¢	5.6¢ 14.3%	5.9¢ 20.4%	6.0¢ 22.4%	6.3¢ 28.6%	7.8¢ 59.2%	10.1¢ 106.1%
Required Presort	6.0¢	6.7¢ 11.7%	7.0¢ 16.7%	7.1¢ 18.3%	7.4¢ 56.7%	9.4¢ 56.7%	12.5¢ 108.3%
<u>Fourth Class Library Rate</u>	\$0.54	\$0.60 11.1%	\$0.63¢ 16.7%	\$0.64 18.5%	\$0.67 24.1%	\$0.77 42.6%	\$0.94 74.1%

1/ See next page for description of "Illustrative Examples."

2/ Percentage increases from step 14 prices are provided below the prices.

3/ Step 14 prices remain until July 6, 1986 with a one step increase on that day.

4/ Appropriation includes \$39,128,000 P.O.D. transitional costs.

5/ Prices are between step 15 and step 16 levels.

6/ Step 16 prices require a revenue forgone appropriation of \$748,749,000.

7/ OMB proposal would require regular rates for in-county. All other preferred prices would be increased to step 16. No appropriation for revenue forgone.

NOTE: Senate Budget Resolution provides \$139,128,000 for revenue forgone and P.O.D. transitional cost. Details regarding preferred rate prices and eligibility are expected to be contained in future legislation.

6-4-85

DESCRIPTION OF ILLUSTRATIVE PREFERRED RATE EXAMPLES

Second Class Publication

In-County

Rural Newspaper:
Frequency: Weekly
Weight: 4 ounces
Advertising: 50¢
All Delivered In County
Presorted to 5 Digits

Nonprofit

Veteran's Magazine
Frequency: Monthly
Weight: 4 ounces
Advertising: 20¢
New York to Chicago
Presorted to 5 Digits

Classroom

Classroom Publications
Frequency: Weekly
Weight: 12 ounces
Advertising: 15¢
New York to Chicago
32 copies per piece

Science of Agriculture

Rural Agricultural Newspaper

Frequency: Weekly
Weight: 4 ounces
Advertising: 50¢
Within 150 miles of entry
Presorted to 5 Digits

Under 5,000 Copies

Newspaper

Frequency: Weekly
Weight: 4 ounces
Advertising: 50¢
Within 150 miles of entry
Presorted to 5 Digits

Third Class

Nonprofit

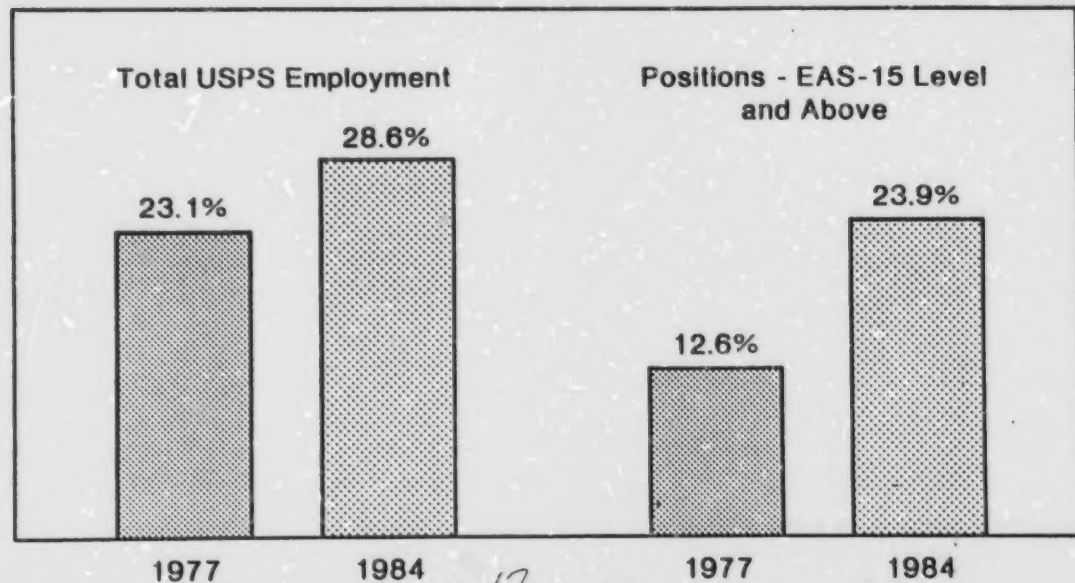
Fund-Raising Letter
Weight: 3/4 ounce
Nationwide Distribution
Carrier Route Presort
Presorted to 5 Digits
Required Presort

Fourth Class

Library Rate

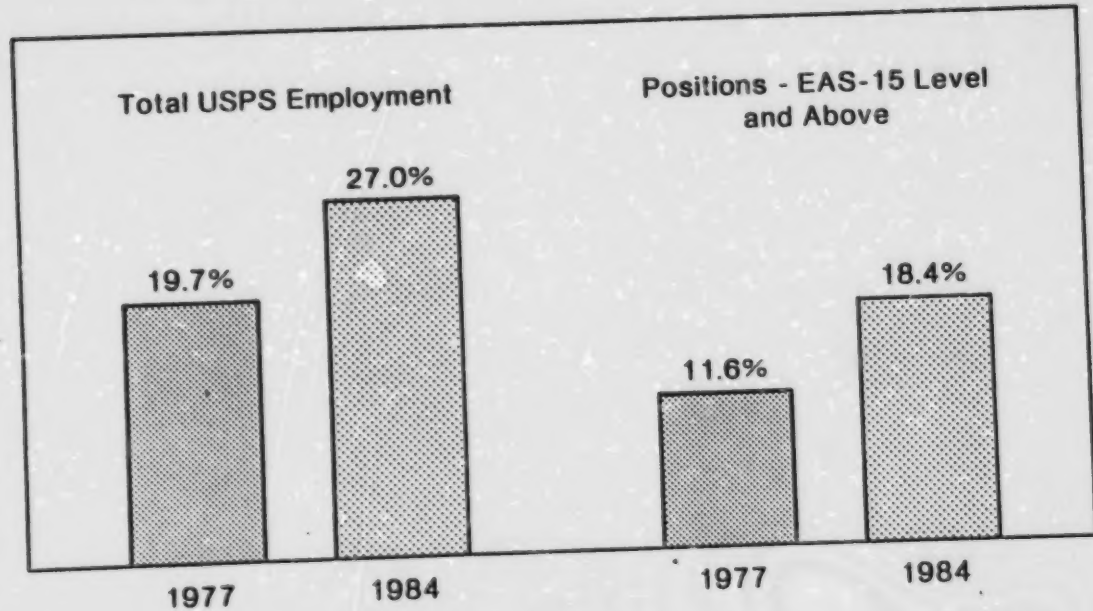
Book Between Libraries
Weight: 2 pounds
New York to Chicago

MINORITY REPRESENTATION



BEST COPY AVAILABLE

FEMALE REPRESENTATION



BEST COPY AVAILABLE

13

Mr. McCLOSKEY. Thank you very much, Mr. Carlin.

We will start right away. I would like to welcome Mr. Pashayan and Mr. Hansen to the committee, who have just arrived.

Would you have any comments as we begin questioning, gentlemen?

Mr. PASHAYAN. No, I have some questions I will ask later.

Mr. McCLOSKEY. Mr. Hansen.

Mr. HANSEN. No.

Mr. McCLOSKEY. Thank you very much. I think given the turnout and the interest today, we will and should go by the 5-minute rule, so I will start, and then we will get to Mr. Leland and so on.

Thank you very much, again, for your statement, Mr. Carlin. You know and I know that the taxpayers and the ratepayers, regardless of the efficiency of the post office, were not really all that happy about the recent rate increase, which has been in effect for just several months, and we know also that you have recently brought on about 30,000 new employees and at the same time you are running about a 12-percent increase in your overtime projections.

It really sounds like, quite frankly, things are going badly. Can you comment as to what happened, what was the matter with some of these projections. Wasn't much of this foreseeable?

Mr. CARLIN. Mr. Chairman, our projections for this fiscal year were that if we operated according to plan and everything worked out as we anticipated when we set that plan about 15 months ago, we would end the year with a \$56 million operating surplus.

During that time, we were hit by several factors simultaneously which ended up being more expensive than we had anticipated. We were hit by the demise of the CAB on January 1, our decision to merge the second-class mailstream into a single stream, and the discontinuance of the air freighter service. Those factors had the result of reducing our service performance.

In order to bring back our service performance, we have had to make some investments. That we have done. Our overtime usage was running consistently between 10 and 11 percent and had been doing so for an extended period of time for this fiscal year. It went back almost 26 months to when we began to experience heavy volume increases. That is just higher than you want to have over an extended period of time.

After we began adding people, our overtime began to drop. In the accounting period ending on May 10, it dropped to 7.6 percent and there are indications it will drop below 7 percent for the accounting period which ended just this past Friday.

Mr. McCLOSKEY. To follow up on that, I was very impressed with your statement at a manager's conference, I believe it was in Chicago, as to the fact that it was everyone's problem, with the emphasis on participatory management and all the workers being involved and so forth. I think you said it would require basically a cutback in about 2.7 hours per employee a week.

I would like to ask you, with your emphasis on local and participatory management, are you doing a regular followup on that, in effect, just not throwing the ball out to them and waiting an indefinite amount of time before there is a followup, so as time goes by, you know that all your local units are catching on?

Mr. CARLIN. Yes, we maintain continuing contact with the field, to track their performance. One tool that we gave the field—we did it first at the end of accounting period eight and again yesterday for the second time—was give reports on their financial operating performance for the accounting period, which ends on a Friday, to every management sectional center the following Monday morning at 7. We expect in return that they give us their forecast for the next 4-week timeframe by noon on that same day. We are going to use that as a major tool for checking our performance.

Since our plan is set 12 to 15 months before the year begins and there are always changes that take place in the interim, we thought we needed a stronger tool.

In addition to that, we have continuing contact with our field managers on virtually a daily basis.

Mr. McCLOSKEY. So given that, could you say if and when you anticipate the next rate increase. I realize there are other financial aspects and problems that we probably haven't dealt with in any detail today, but is it really crossing your mind and your desk as to just when a rate increase will be necessary?

Mr. CARLIN. There is no way that I can tell you precisely when a rate increase would be necessary. Very frankly, it is going to depend to a large degree on our ability to turn this projected deficit around.

Let me clarify. This is our best projection based on the plan we had developed earlier on and how we now see the end of the year results.

We must change our performance. Through accounting period eight, we were operating \$202 million in the red. We are going to be whittling away so as not to have that grow. While we may see one accounting period when it will grow, if the actions that have been set in motion continue as we anticipate, we will begin whittling away at that.

Mr. McCLOSKEY. Could you comment on your reaction to and your strategy involving the legislative aspects of the revenue forgone and the retirement increase situation. Is it not likely that that in itself could result in significant increase before too long, given some of the executive decisions on this?

Mr. CARLIN. Well, there is a wide variety of revenue forgone proposals that is being considered by the administration and by both Houses of Congress.

Obviously, when we face an unanticipated revenue shortfall, the larger that revenue shortfall the sooner the time we could face a rate increase. However, I am not in a position where I can give you any forecast on that.

Our primary concentration now is on controlling those things over which we have a great deal of control, which are controlling costs and bringing them back into line.

Mr. McCLOSKEY. Thank you, Mr. Carlin.

Before turning to Chairman Leland for his questioning, I would yield to Mr. Pashayan for a unanimous-consent request.

Mr. PASHAYAN. Yes, that my statement be put in the record at the appropriate place.

Mr. McCLOSKEY. It is so ordered.

Mr. McCLOSKEY. Mr. Leland.

Mr. LELAND. Thank you very much, Mr. Chairman.

Mr. Carlin, during the last few years, Congress has had to fight the Reagan administration in order to maintain adequate appropriations for revenue forgone.

For fiscal year 1986, the Reagan administration proposed no appropriations for revenue forgone. The fight to maintain appropriations for this critically needed program continues even today.

As I am sure you are aware, the Senate, in their budget for fiscal year 1986, appropriated \$100 million for revenue forgone. In your opinion, what would be the effects of such an appropriation on both your preferred mailers and the U.S. Postal Service?

Mr. CARLIN. It's our understanding that the recommendation in the Senate's version is for \$139 million; \$39 million for the transitional expenses of the former Post Office Department and \$100 million for revenue forgone.

It is our further understanding that it is the Senate's intention to provide some specific legislative guidance as to how that should be administered, and who should be covered, and extent of that coverage.

In the absence of such policy direction, we would first assume that the free mailing for the blind, necessitating \$37 to \$38 million, would continue. Then, the remaining revenue forgone amount would be spread among the remaining nonprofit and preferred rate mailers.

Since that is less than 10 percent of the \$981 million full funding requirement, there would have to be appropriate rate increases for the nonprofit and preferred rate mailers. That is, absent any congressional direction.

Mr. LELAND. What about the effects of the House version? What we did, we were very generous.

Mr. CARLIN. The House version is \$840 million. Again, it is our understanding that that includes the \$39 million for the transitional expenses of the former Post Office Department, leaving \$801 million for revenue forgone. That would result in setting rates for the nonprofit and preferred rate mailers somewhere between steps 15 and step 16 of the phasing schedule.

Mr. LELAND. Do you think that funding the subsidies from general postal revenues is sound public policy?

Mr. CARLIN. The Postal Services has always taken the position, based on one of the basic tenets of the Postal Reorganization Act, that each mailer should pay his own way. That has been a basic tenet of the Postal Reorganization Act and it is our position that before there is a change in that policy, Congress should look very carefully at all of the ramifications.

Mr. LELAND. Both the Reagan administration's proposed budget and the Senate-passed budget call for a change in postal policy to allow cross subsidization between classes of mail. This change in postal policy has serious implications for the future and I am opposed to this proposal.

Let me ask you, in your opinion, what effect would this policy have on the Postal Service? That is, what would be its consequences? I have a very serious problem with this.

Mr. CARLIN. I'm sorry.

Mr. LELAND. I'm just trying to figure where we're going to go from here, how are we going to work together in resolving this problem? I mean, if I've got a problem with it and you've got a different position by virtue of where you are; how are we going to resolve this problem for the future?

Mr. CARLIN. I think the issue which has to be squarely faced is that this is not a subsidy to the Postal Service, but to the preferred rate mailers. Congress has made a determination that certain categories of mailers should receive preferential treatment.

The position that has been taken thus far, pursuant to the Postal Reorganization Act is that since each ratepayer pay his own costs, those subsidy costs should be provided from the General Treasury because of the policy determination that the general welfare was served.

We think that before there is a change made in that basic policy position, there should be careful consideration.

Mr. LELAND. I think my 5 minutes are up, Mr. Postmaster, but I want to applaud you for the outline of the affirmative action plan that you have developed, which includes not only minorities and women, but also the handicapped. I appreciate your statement on those issues.

Mr. CARLIN. Thank you very much.

Mr. McCLOSKEY. Thank you, Mr. Chairman.

Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman.

I am also concerned, Mr. Postmaster General, about this revenue forgone. You say that the full funding is \$981 million?

Mr. CARLIN. Yes, sir.

Mr. HORTON. And under each of the Senate and House, it would not be full funding. In the event there is not full funding, will you still continue in the Post Office to provide the services under revenue forgone? In other words, will you make it up from postal revenues?

Mr. CARLIN. There is attached to my testimony a chart which indicates the various changes that would be called for under various funding of arrangements.

If the full funding is not provided, we will then be looking to the nonprofit and preferred rate mailers to make up at least that portion of the shortfall attributable to phasing.

The Chairman of our Board of Governors, acting as an individual since the Board has not taken a position on the issue, made a statement this week on revenue forgone. He indicated that, in the absence of specific legislative direction, if something less than \$749 million were to be appropriated, the Board would only move nonprofit and preferred rates to step 16—an approximately 30-percent increase—because it was concerned that these ratepayers could not absorb larger increases at this point in time.

Mr. HORTON. Well, for example, when I was up in my district just recently in Oswego County, I talked with the publisher of one of my weekly papers. They have two newspapers that put out two issues a week. Their present mail costs are something like \$840 an issue. That would go up to \$2,400 without revenue forgone, about \$12,000 a month or about \$144,000. This is if they would be required to pay the full rate.

Well, of course, that means that the little weekly paper—or any in-county operations—certainly couldn't operate, and I think that is going to be true of many of those small weekly, which are very important, I think, to the people in the various communities.

I, for one, want to indicate my full support for full funding, because I think revenue forgone, as far as the Congress is concerned, as far as I am concerned, is an important subsidization for those categories that are listed in there, and I think that if there is anything that I can do for full funding I will certainly do it.

But I also urge the Postal Service in the event that we find ourselves in a situation where there is not full funding that you still try to continue revenue forgone, and then give us the chance to work out of it some way or another, perhaps we could go something of a supplemental later or something like that.

So I just urge that course of action so that we don't lose that type of preference.

I am also concerned about when you talk about these deficits, and there are a lot of questions that I would like to ask, but to save time, I would like you to state to me what your attitude is with regard to the private express statutes and also to the closures of rural post offices.

Are either of those very important principals going to be affected as a result of the deficits that you are looking at now?

Mr. CARLIN. No, I don't see that they would be impacted. We have no plans for the wholesale closing of small post office. The private express statutes have served us well for nearly 200 years and we don't think there should be changes.

Mr. HORTON. Now, you did, in answer to Chairman McCloskey when he asked the question, you did indicate that you had not yet anticipated filing for another rate increase. Have you considered that, though?

I mean, your answer was not direct to the chairman's question. Are you now considering a possible rate increase in order to accommodate the deficit? You did indicate you are going to try to reduce that deficit, but are you contemplating now asking for another increase?

Mr. CARLIN. To specifically answer your question, we have not set into motion any steps leading in that direction. We are constantly studying the impact of various costs. We do that all the time so that we will be in the best posture to respond when the time comes. We have not set that into motion at this point in time, no, sir.

Mr. HORTON. In order to keep my time confinement here, I would ask just one more question. I have a number of other ones, but what are you doing with regard to controlling overtime? I understand some of the employees get as much as \$40,000 to \$50,000 a year as far as overtime is concerned. Can't management get a better handle on that?

Mr. CARLIN. That is one of the reasons why we've added the number of people that was referred to earlier—about 30,000 more people this year than last year. The net impact of having the people available is that we have driven down our overtime.

When our overtime was running between 10, 11, or slightly over 11 percent on a nationwide basis, that means that in some installa-

tions it was running as high as 15, maybe even as high as 30 percent.

The figure has dropped from where we have been for better than a year and a half. It's now down to 7.6 to 7.5 and there are indications that it will be under 7 percent when we get the final figures for the accounting period which ended last Friday night.

Mr. HORTON. Thank you very much.

Mr. McCLOSKEY. Thank you, Mr. Horton.

Mr. Clay?

Mr. CLAY. Thank you, Mr. Chairman.

Mr. Chairman, I ask unanimous consent to insert in the record at this point the PMG's letter with respect to EEO and the senior levels of the Postal Service.

[The information follows:]



THE POSTMASTER GENERAL

Washington, DC 20260-0010

April 2, 1985

Honorable William L. Clay, Jr.
House of Representatives
Washington, D.C. 20515

Dear Congressman Clay:

This is in further response to your letter of March 11, concerning senior level assignments, the organizational structure of the Postal Service's Office of Equal Employment Opportunity (EEO), and a list of positions filled by minority group members.

Regarding the recent officer appointments, ~~while only one~~ of the appointments to our officer level was a minority group member, ~~we have made further appointments to assure~~ that minority group members will be viable candidates for future officer level positions. In fact, two minorities were recently selected to the position of Regional Director. Given the track record of many of our most recent appointments to the officer level, these individuals are certainly within the range of officer level positions in the near future.

In reference to the structure of our Office of EEO and those at other Federal agencies, a study was made to determine the reporting relationship of EEO in other Federal agencies. We believe our EEO organizational structure to be typical of others. Of the 12 agencies sampled, two have the top EEO operating officials reporting to the head of the agency (Department of Transportation and Tennessee Valley Authority), six others report at one level below the head of the agency (Department of Agriculture, Department of Defense, Health and Human Services, Department of the Interior, Equal Employment Opportunity Commission (EEOC), and Veterans Administration), two report two levels below the head of the agency as we do (Department of Commerce and General Services Administration), and one reports three levels below the head of the agency (Department of the Treasury).

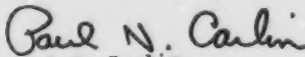
BEST COPY AVAILABLE

We have discussed these reporting relationships with EEOC officials who oversee the Federal sector EEO Program. We were advised that the intent of the EEOC regulation was not to require the EEO program manager to report to the head of the agency, but was designed solely to ensure that someone with overall responsibility for EEO would have such a reporting relationship. To this end, the Senior Assistant Postmaster General, Employee and Labor Relations, who reports directly to me, is the Postal Service's Director of EEO.

The Executive Director of the Office of EEO at the Postal Service has direct access to me and meets with me, all Regional Postmasters General, and all Senior Assistant Postmasters General on a quarterly basis.

I have enclosed for you a list of positions filled by minority group members. Whenever I or any member of my staff may again be of assistance, please let me know.

Sincerely,


Paul N. Carlin

Enclosure

HeadquartersPostmaster GeneralPostmaster General *1/17/76*Assistant Postmasters GeneralAPMG, Rates & Classification Department
APMG, Public & Employee CommunicationsDirectorsDirector, Office of Safety & Health
Director, Office of Data Processing
Director, Office of Headquarters Services
Director, Office of Programs Support Services
Director, Postal Data Center, St. Louis
Field Director, Area Support CenterGeneral ManagersGeneral Manager, Management Systems Division
General Manager, Grievance Division
General Manager, Affirmative Action Division
General Manager, Delivery & Retail Operations
Policy Division
General Manager, Procurement & Control Division
General Manager, Data Operations Division
General Manager, Procurement & Control Division
General Manager, Payroll Systems Division
General Manager, Data Operations Division
General Manager, Procurement & Control Division
General Manager, Management Services Division
Data Systems Executive, IRMPostal Executive ServicePostal Executive in Training
" " " "

BEST COPY AVAILABLE

Inspection Service

Postal Inspector-In-Charge, Ft. Worth, TX
 Assistant Regional Chief Insp. - Administration
 PCES Executive - Special Assignment

" " " "
 " " " "
 Assistant Regional Chief Insp. - Criminal
 Regional Chief Postal Insp.
 Assistant Regional Chief Insp. - Audit
 Postal Inspector-In-Charge - Newark, NJ

Central RegionRegional Director

Regional Director, Planning, Regional Office

General Manager

General Manager, Publication & Employee
 Communications Division, Regional Office

District Managers

District Manager, Mid-America
 Postmaster, Chicago, IL
 District Manager, Michigan
 District Manager, Greater Wisconsin

Management Sectional Center Managers/Postmasters

MSC Manager, Detroit, MI
 MSC Manager, Cleveland, OH
 MSC Manager, St. Louis, MO
 MSC Manager, Minneapolis, MN
 MSC Manager, So. Suburban, IL
 MSC Manager, Louisville, KY
 MSC Manager, Gary, IN
 MSC Manager, Kalamazoo, MI
 MSC Manager, Lafayette, IN

Other Executives

Director, Mail Processing, Chicago, IL
 Director, Support, Chicago, IL
 Director, E&LR, Chicago, IL

Eastern RegionRegional Director

Regional Director, Planning, Regional Office

District Manager

District Manager, Maryland-DC

General Manager

General Manager, Real Estate Division

Management Sectional Center Managers/Postmasters

MSC Manager, Philadelphia, PA
 MSC Manager, LeHigh Valley, PA
 MSC Manager, Prince Georges, MD
 MSC Manager, Johnstown, PA

Northeast RegionRegional DirectorRegional Director, Mail Processing
Regional OfficeGeneral ManagerGeneral Manager, Logistics Division
Regional OfficeDistrict Managers

District Manager, Northern New Jersey
 District Manager, Caribbean

Management Sectional Center Managers/Postmasters

MSC Manager, Waterbury, CT
 MSC Manager, Brooklyn, NY

Southern RegionRegional Director

Regional Director, Customer Services
Regional Office

District Manager

District Manager, Mid-South

General Manager

General Manager, Field Real Estate &
Buildings Office - Tampa, FL

Management Sectional Center Managers/Postmasters

MSC Manager, Houston, TX
MSC Manager, Ft. Worth, TX
MSC Manager, Nashville, TN
MSC Manager, San Antonio, TX
MSC Manager, Waco, TX
MSC Manager, Corpus Christi, TX
Manager, Atlanta Bulk Mail Center
MSC Manager, Jackson, MS
Manager, Memphis Bulk Mail Center

Western RegionRegional Postmaster General

Regional Postmaster General

General Managers

General Manager, Delivery Division
General Manager, Public & Employee
Communications Division

District Managers

District Manager, Sequoia District
District Manager, Golden Gate District
District Manager, Pacific District
District Manager, Sierra District

Management Sectional Center Managers/Postmaster

MSC Manager, Los Angeles, CA
MSC Manager, San Francisco, CA
MSC Manager, Oakland, CA
MSC Manager, Fresno, CA
MSC Manager, Alhambra, CA
MSC Manager, Tucson, AZ
MSC Manager, San Bernardino, CA
MSC Manager, Pasadena, CA
MSC Manager, Bakersfield, CA
MSC Manager, Juneau, AK
MSC Manager, Flagstaff, AZ

USPS MINORITY STATISTICS

(As of March 15, 1985)

	AI/AN	%	Asian	%	Black	%	Hispanic	%
1-14	1,778	0.3	17,120	2.5	131,699	19.0	33,636	4.9
15-16	120	0.0	489	0.1	7,422	1.1	1,449	0.2
17-22	89	0.0	301	0.0	3,136	0.5	789	0.1
23+	10	0.0	80	0.0	424	0.1	109	0.0

	Other						
	Minorities	%	Black	%	Hispanic	%	Total
PCES I	8	0.0	60	8.3	17	0.0	721
PCES II	1	2.9	1	2.9	2	5.7	35

Total Minorities

201,584 - 29.1%



THE POSTMASTER GENERAL
Washington, DC 20260-0010

April 10, 1985

MEMORANDUM TO ALL PCES MANAGERS

On Monday, April 8, I met with 15 Black Postal Executives to discuss the Affirmative Action process. Specifically, we concentrated on the progress being made in bringing minorities into the higher levels of Postal management. We also had an extensive discussion of the perceptions of the fairness of the system among minority employees.

That meeting and my review of the report by the firm of Clark, Phipps, Clark and Harris, made last year, left me with a strong sense that we have not done enough to ensure fair treatment and full consideration of the minorities and women in the promotion process. We are going to change this, not only because it makes business sense; it is the right thing to do.

In the short run, I am taking the following steps:

1. Effective immediately, for every PCES vacancy, at least one minority and one woman executive or candidate will be given serious consideration. By serious consideration, I mean at least one minority or woman will be contacted to assess their interest and if interested, they will be interviewed and seriously considered for appointment to the position. Again, we are going to be guided by filling each position with the person who best meets the needs of the position, but we are also going to ensure that we are giving full consideration to minorities and women.
2. In the PCES Candidate Selection Process about to get underway, each Executive Screening Committee and Executive Evaluation Panel will include at least one minority and to the extent possible, one woman.
3. The Office of EEO, Headquarters, will begin to play a formal advisory role to the Executive Resources Board on minority issues.

4. The recently established Quarterly Review Process will include discussion by the reporting officer or executive of the progress against their development plans for each minority and woman executive and candidate who is under their jurisdiction, either organizationally or functionally.

5. The Executive EEO Committee meetings will include each quarter, specific discussion by the members on the Affirmative Action Plans, trend lines and progress against affirmative action plans, EEO on-site reviews of problem offices and action taken and significant developments of EEO litigation.

6. Executives responsible for preparing and submitting Executive Resources Plans will be asked to again review their minority and women executives and candidates Individual Career Plans, to see if changes in areas of interest, next job choices, or developmental activities are warranted. The Executive Resources Board will also formally review the talent pool list (currently in draft form) to assure appropriate representation of minorities and women in target positions.

These are first steps. I am looking at additional moves that can be taken to strengthen the commitment of this organization to affirmative action and true equal employment opportunity. I invite each of you to let me know if you have specific suggestions on additional steps that might be taken.

While the Postal Service can take some pride in the steps that have been taken in the past, to assure equal employment opportunity for all, there is still a significant gap between the proportions of minorities and women in our total work force and those represented in Postal management. I expect that to change. The responsibility starts with me. I expect you to do your part.

Paul N. Carlin
Paul N. Carlin

BEST COPY AVAILABLE



THE POSTMASTER GENERAL

Washington, DC 20260-0010

May 17, 1985

Honorable William L. Clay, Jr.
House of Representatives
Washington, D.C. 20515

Dear Bill:

This is in response to your letter of April 19, requesting information regarding minority-group representation in the Postal Service.

Enclosed are the Affirmative Action Plans for Fiscal Years 1983 through 1985, the Board of Governors reports for Fiscal Years 1983 and 1984, and the Affirmative Action Accomplishment Report for Fiscal Year 1983. The 1984 accomplishment figures should be ready by the end of this month. I will send you a copy immediately upon completion.

Concerning your questions relative to the Law Department and Inspection Service, we are preparing a more detailed response on these areas which should be ready in the very near future and will be shared with you at that time.

Sincerely,

Paul N. Carlin

Enclosures

BEST COPY AVAILABLE

Mr. CLAY. Mr. Postmaster General, Dr. Kenneth Clark did an in-depth study for the Postal Service in regards to its EEO and affirmative action policies. One of his major concerns was the EEO structure within the Service. I understand that presently you are having the EEO director to report to you through the employee and labor relations Assistant Postmaster General.

Well, that seems to have been one of the problems that Dr. Clark had with the way you were structured over there because most of the EEO complaints of postal employees revolve around the employee and labor relations department.

And, I was just wondering if you think that that was an appropriate reporting mechanism. I mean, don't you think that the EEO office should report directly to you?

Mr. CARLIN. I have, since I have been on this job, had the opportunity and the privilege of meeting with Dr. Clark and discussing at some length his report. I do not think that changing the reporting relationship get at the basic thing that we are trying to affect here, and that is how you treat people.

I think there is only one way to reach this and that is to make EEO, just like we have done in safety, a direct line-management responsibility. That is what we are in the process of doing.

A lot of the things that are the causes of complaints do revolve around employee- and labor-type activities. I think that placement within E&LR is preferable in that EEO professionals have a chance to participate in the development of E&LR policies.

I think that the employee relations policies that have evolved over the past decade have been very strong and positive. I also think that the administrative implementation of those is what is critical.

We have had strong input from our EEO office in developing the various policies that have emerged over this time period and I would like to see that continue. But the real responsibility for making EEO work falls on line management.

The various committees that we have set up have been going for only about a year, a year and a half now. But, we have used the same type of technique successfully in the safety area. Every quarter I sit down with the senior managers of the organization—including all of the Regional Postmasters General—and we review for an extended period of time what our performance has been and we get down to very specific things.

What we are trying to do is drive that down and make it more of a line management responsibility. I think that what we are looking for is results rather than reporting relationships.

Mr. CLAY. In mentioning safety, for many years one of the major concerns of these subcommittees has been the lack of safety in the Postal Service. I want to commend you and your predecessor for the record that you have compiled in the last 5 or 6 years, in terms of reducing the number of accidents and the number of days lost as a result of accidents.

Thank you, Mr. Chairman.

Mr. CARLIN. Mr. Chairman, if I could just piggyback one thing. Our lost workday frequency rate used to be approximately 7 or somewhere in that range and in this latest accounting period, it dropped under 3 to 2.9. Considering that many comparable indus-

tries in the private sector are at 2.5 or thereabouts, we are very rapidly approaching our goal of being on a par with the private sector. As soon as we get there, we are going to try to improve beyond that. We are going for under 1. That's our goal.

Mr. McCloskey. Thank you, Mr. Clay. Thank you, Mr. Carlin.

Mr. Pashayan.

Mr. PASHAYAN. Mr. Postmaster, what is the position of the Postal Service in regard to inspecting first-class mail that comes from Hawaii? I mean inspecting for agricultural products coming from Hawaii?

Mr. CARLIN. Coming from Hawaii?

Mr. PASHAYAN. Yes.

Mr. CARLIN. I would have to check and find out. We did have a special program going on there for a period of time relating to drug trafficking.

Mr. PASHAYAN. Well, I am not concerned about drugs. I am concerned about the importation albeit inadvertent importation of the Mediterranean fruit fly, which is a vicious little insect that has the reproductive capability and voracious appetite to ruin a lot of crops that grow in California.

We had that very, very severe problem 4 or 5 years ago, and to stop it, it requires spraying a very toxic substance by helicopter, and it just raises all sorts of Cain. There is a possibility that even one Mediterranean fruit fly, female, of bearing eggs can start a whole population. They are ruinous.

Do you know whether the Postal Service is cooperating or negotiating with the Department of Agriculture in this regard?

Mr. CARLIN. I don't have specific information at my fingertips. I would be happy to supply it for the record.

Mr. PASHAYAN. Could you find out and let me know and if not, would you be willing to get in and explore that problem with the Department of Agriculture and devise some method whereby the two of you could cooperate in trying to keep this little thing from—this little thing that wrecks such huge damage—from coming in?

Mr. CARLIN. We would be happy to work with the Agriculture Department. We have to be very careful that the Postal Service does not serve as a censor of what can or cannot go through the mail. There are some legal issues here that we would have to work around, but we would be happy, to the extent of our authority, to work fully with the Department of Agriculture.

Mr. PASHAYAN. Well, there is a public health problem here, because, as I say, the Mediterranean fruit fly affects public health, as well as causing untold millions and millions and millions of dollars of damage to farmers that grow soft fruit.

Mr. CARLIN. We would be happy to cooperate with the proper authorities.

Mr. PASHAYAN. Nobody wants to buy soft fruit that has been partly eaten by a Mediterranean fruit fly with eggs in it and that sort of thing. Now, some of my colleagues here enjoy California raisins, for example, and it really is a voracious little insect, nasty thing.

I can assure my good friend, Mr. Horton, that none of the raisins that he gets is touched by the Mediterranean fruit fly.

Mr. HORTON. Thank God. Do they come through by mail?

Mr. PASHAYAN. Well, I suspect that if fruit is being imported from Hawaii, they might contain either the larvae or the actual insect. I think that is the problem.

Mr. HORTON. How about Alaska?

Mr. PASHAYAN. I think the Mediterranean fruit fly, being Mediterranean, finds the cooler climate of Alaska disaffecting.

Mr. LELAND. Mr. Chairman, is this the Agriculture Committee?

Mr. CARLIN. I would be happy to check and find out what we have done and provide a report directly to you.

INSPECTION OF PARCELS CONTAINING AGRICULTURAL MATTER

The Postal Service's policy on this subject is expressed in parts 115.92 b and c of the Domestic Mail Manual (DMM) (copy attached), incorporated by reference in the Code of Federal Regulations by 39 C.F.R. 111 (1984). The policy has been in effect in its present terms, without substantive change, since 1978.

In summary, under the Plant Pest Act, 7 U.S.C. 150cc (copy attached), as implemented by DMM part 115.92b, parcels which are not sealed against inspection, which originate in Hawaii, and which are addressed to the United States mainland, are subject to inspection by the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) in Hawaii, under a long-standing arrangement in which the Postal Service shares its authority to conduct postal inspections with USDA's APHIS inspectors. Hawaiian-origin domestic parcel mail which is sealed against inspection is not subject to inspection by the Postal Service or APHIS without a search warrant or the consent of the sender or addressee. It would be unconstitutional and illegal for the Postal Service either to inspect such mail itself without a search warrant and without the consent of the sender or addressee or to let anyone else do so without such a warrant or consent. *Ex parte Jackson*, 96 U.S. 727 (1877); *United States v. Van Leeuwen*, 397 U.S. 249 (1970); 7 U.S.C. 150cc(b) (1982); 18 U.S.C. 1702 (1982); 39 U.S.C. 3623(d) (1982).

Under the Terminal Inspection Act, 7 U.S.C. 166 (copy attached), as implemented by DMM part 115.92c, the Postal Service and the Department of Agriculture cooperate with those destination States which quarantine themselves, with the Department's approval, against the introduction of certain plant materials, and which establish at their own expense mail inspection programs. Under this Act, the Department performs no mail inspection functions. The Postal Service cooperates with the States' inspection of mail endorsed to contain plant materials, either by routing such mail to the terminal inspection stations maintained by the States or by holding such mail at postal facilities for inspection by State or County officials.

The Postal Service consults with APHIS on the operation of these programs and has consulted with members of an advisory committee recently established by the Department to review APHIS's operations. The Postal Service understands APHIS to be dissatisfied with its legal inability to conduct inspections without either a search warrant or consent of mail parcels passing between Hawaii and the mainland which are sealed against inspection. In view of the constitutional and statutory limits cited above, however, the Postal Service would be acting illegally to help APHIS conduct the warrantless mail inspections it desires to conduct.

Mr. PASHAYAN. If you could let us know what cooperation you and the Secretary of Agriculture are able to accord and achieve in this, I should appreciate that.

Thank you.

Mr. McCLOSKEY. You still have 2 minutes.

Mr. PASHAYAN. I will reserve the balance of my time.

Mr. McCLOSKEY. Thank you for that interesting set of questions.

Mr. de Lugo.

Mr. DE LUGO. Thank you very much, Mr. Chairman.

Postmaster General Carlin, it is a pleasure for me to welcome you here before this committee, and I must say that I was very impressed by your testimony. I join with Chairman Leland in saying that I particularly was impressed by the very strong statements you made regarding affirmative action.

My questions will be less general in nature and more concerning specific problems that I have in my district, the U.S. Virgin Islands. The Virgin Islands have been plagued by postal problems for many years.

Under your predecessor, a task force was sent to the Virgin Islands last year. It was determined at that time that the most efficient method of routing the mail would be through Puerto Rico, under the very capable direction of the task force director, Mr. James Walton, of the U.S. Postal Service. We made some significant strides toward real improvement in the service.

However, since January of this year, I have received an unending stream of complaints from my district. One of the primary reasons is that the air carrier which contracted for mail delivery from Puerto Rico and the Virgin Islands has been unable to meet its obligations.

I know that this is almost a national problem, but this is particularly difficult given our situation. There are few commercial carriers which fly directly between the islands, and our dilemma is unique in that we simply just can't truck the mail to its destination.

Once again, I have called on Mr. Walton for his capable assistance, and I have also provided him with the names of two private carriers who are interested in providing daily air service.

I would like to request your assistance, Mr. Postmaster General, in seeing that the contracting for additional carriers proceeds smoothly and quickly so that this problem is rectified as soon as possible.

So, what I am asking here is really your cooperation by bringing this to your attention.

I realize that this is your first hearing before this committee, but I would like to ask for your cooperation in giving this some of your personal attention.

Mr. CARLIN. I will work with Mrs. Strange, who is our chief operating officer, and with our mail processing personnel to take a look at the transportation to the Virgin Islands and see what we need to do to improve that service.

Mr. DE LUGO. Thank you very much.

During a recent meeting in my office with regional and local postal authorities, I was told that bids were about to go out for a new postal facility in Gallows Bay, St. Croix. The new facility will relieve the crowding and the pressure on the downtown post office in Christensted. Once again, I believe that this is a much needed step in improving our postal service, and I would appreciate your keeping a watchful eye over this process as well.

One final thing, Postmaster Carlin. I would like to give you a list this morning of postal improvements that are to be implemented in St. Croix over the next few months.

This list was outlined for me by the local and regional postal authorities responsible for operations in the U.S. Virgin Islands. Once again, your assistance in seeing that these improvements are followed through will be very much appreciated.

Again, my commendations on your presentation this morning.

Mr. CARLIN. Thank you very much.

Mr. McCLOSKEY. Thank you, Mr. de Lugo. I believe Mr. Horton has a unanimous-consent request.

Mr. HORTON. Mr. Chairman, I would like to ask unanimous consent that the statement of Congressman Don Young, a member of the Subcommittee on Postal Operations be included in the record.

Mr. McCLOSKEY. Without objection.

Mr. McCLOSKEY. Mr. Hansen.

Mr. HANSEN. Thank you, Mr. Chairman.

Mr. Carlin, I appreciate your testimony and all the good work that you do. I would like to ask a question. What can you tell us about the theft of postal funds at the Morgan Station facility in Manhattan, or how much was stolen?

Mr. CARLIN. I've seen a newspaper account in the last day or so. I don't have any specific information.

Mr. HANSEN. I'm sorry.

Mr. CARLIN. I would be happy to provide that to you for the record.

Mr. HANSEN. I would appreciate it if you would.

[The information follows:]

Hon. JAMES V. HANSEN,
House of Representatives,
Washington, DC.

DEAR CONGRESSMAN HANSEN: At the June 11 oversight hearing before the Post Office and Civil Service Subcommittees on Postal Operations and Services and Postal Personnel and Modernization, you raised a question concerning the theft of some registered mail at the Morgan General Mail Facility (GMP) in New York City. We presume your question relates to an item which appeared in the June 17, 1985 issue of Federal Times, which stated that there had been a theft of more than one million dollars in Postal Service funds. Unfortunately, we had two instances of theft from the registry section at the Morgan GMF which relate to the Federal Times' article, on January 15 and December 4, 1983. The losses consisted of approximately \$425,000 in cash and other items of undetermined value. We do not know the source of the information which appeared in the Federal Times.

As background information, the registry section in the Morgan GMF is one of the largest in the United States, both in terms of physical size and the number of employees assigned. This section also handles one of the highest volumes of registered mail in the country. Investigation by the Postal Inspection Service commenced immediately after the report of the first theft and is still continuing. A large number of employees have been interviewed and many polygraph examinations have been administered to those who consented to take them. Reward posters were issued, offering rewards for information leading to the arrest and conviction of the person or persons responsible. Technical equipment has also been employed. There was interference with camera equipment at one point, which has made the investigation more difficult. The investigation has been given a high priority from the outset. During the investigation, security deficiencies were noted by the Inspection Service and were reported to postal management for correction. We believe that corrective measures will improve security and reduce the further opportunity for theft.

Naturally, I cannot describe in detail the measures which the Inspection Service has taken because of their confidential investigative nature. However, if you have further questions on this subject, please let me know.

Sincerely,

PAUL N. CARLIN,
Postmaster General.

Mr. HANSEN. I noticed on page 10 of your testimony you get into the topics of safety and health. Have you ever done any studies, or is there any consensus among your group as to a division between the larger metropolitan post offices and the smaller ones as far as accident rates, and those who call in sick or have health problems? Do you notice that at all?

Mr. CARLIN. We do notice that there is greater use of sick leave in the metropolitan areas, and we have devised some specific programs designed to deal with that problem.

It doesn't necessarily vary with the size of an office. A point we keep trying to make to our managers is the type of management which is provided there has a very strong influence on the extent to which sick leave is used. We can't otherwise explain why you have two facilities which seem to be about the same size, and yet they have widely divergent uses of sick leave and accident rates.

Mr. HANSEN. In our business we sometimes hear horror stories like the Defense Department's claw hammer costing an outrageous amount, and now we hear about the large metropolitan post office that has a 25-percent call-in for sickness. Is there any truth to such a claim?

Mr. CARLIN. Our figures don't run anything near that. One fact concerning accidents in metropolitan areas is that you have an awful lot more exposure and incidents than you do in a more rural setting.

Mr. HANSEN. I am sure that if you looked at it, the exposure would be much greater in a metropolitan area, but we get somewhat concerned about our little rural post offices out in the West, and we are kind of proud that Grouse Creek, UT, with 34 people, has a post office, where they can receive mail from all over the United States and from other countries.

Mr. Horton asked the question, "Do you have any plans for closure of these small ones?" You answered this way, if I took it down correctly; "No plans for wholesale closure of rural post offices." Are there specific plans with regard to closures at all, retail plans rather than wholesale?

Mr. CARLIN. We have no plans for the wholesale closings. We do close some post offices on an individual basis. We look at them on a case-by-case basis and where we can provide similar service by another means.

We run into some instances where there is no one in that community who is willing to serve as a postmaster or, in other instances where there is just not a building physically available.

Mr. HANSEN. So that would be your criteria?

Mr. CARLIN. It's only in rare situations. We close about 200 offices a year for a variety of reasons.

Mr. HANSEN. How many would you open in the year; do you have any idea what the offset would be, if any?

Mr. CARLIN. It's rare that we open new offices, but it would be a very, very small number.

Mr. HANSEN. So there is no conspiracy plan to close a whole group of small post offices like we read in the Grace Commission report? I think Mr. Grace put everything in the light of how we conduct business, and I appreciate that. On the other hand, I look at the Postal Service somewhat differently than I do at business, and I am happy to hear you say that we are not looking to go in and cut the small rural post offices in the West, and other areas in this country; is that right?

Mr. CARLIN. In any situation where a post office is to be closed, there is a very detailed procedure which provides plenty of opportunity, both before the fact and after the fact, for widespread com-

munity involvement before we make that decision and even after we have made the decision. If there is disagreement, there is procedure for the citizens of that community to appeal to the Postal Rate Commission.

Mr. HANSEN. Just for my own edification—

Mr. HORTON. Would the gentleman yield before you get off that?

I tell you, I think what you are concerned about, and I am, too, is the use of the word "wholesale" I think, and I'm glad that you brought that up because I had a question about that. That kind of hedges a little bit. We are not hedging here. I mean, you don't have any plans to close rural post offices.

Now, there are people who are advocating that, and as was stated by the gentleman from Utah, the Grace Commission has advocated that, and they have got it in Reader's Digest, all over the country, and the Grace Commission people are writing to everybody taking adds in the newspapers, and I have seen literally thousands of people in office hours and they come in and say, "Are they going to close our little post office"—Marion, NY, Putneyville, NY, wherever they are. We have got a lot of them up in the East, too, Mexico, Texas. They are all in New York.

But, you know, they are very much concerned about that. Now, I think what I was asking, and I think what the gentleman from Utah is asking, and we are not playing games. If you have to close a post office, and you have a routine system, and that sort of thing that you go through, that's one thing.

But, do you have in the back of your mind, are you folks there at the Postal Service trying to figure out ways that you can close these small post offices, or is that just something that you are not bothering with at all and you can assure us in this committee that you are not undertaking any steps that ultimately are going to close a lot of these small post offices?

Mr. CARLIN. As straightforward an answer as I can give is the answer I gave you earlier. We have no plans, and we have none that are on the drawing boards, nor are we contemplating any plans for the closing of significant numbers of post offices.

Mr. HORTON. OK.

Mr. CARLIN. We are aware of recommendations made by other bodies, but we have such plans.

Mr. HORTON. OK.

Mr. HANSEN. Thank you. I have got time for one more question.

Thank you, Mr. Chairman. I appreciate Mr. Horton going through that. I think it is crystal clear and I appreciate your comment and your answer.

Mr. CARLIN. May I append this one final thing? When we do close an office, we provide equivalent service or, in some cases, even better service as an offset to that.

Mr. HANSEN. Just so repetition creates conviction, I believe you stated earlier in response to my first questions that there is really not a difference between the efficiency of a large organization and a small one, and in your mind, it comes more down to the idea that managerial skills are a key factor, and that a large organization can be very efficient just as a very small one can be efficient. That is a correct statement, isn't it?

I mean, the biggest one in New York City could be managed as efficiently as the smallest one in rural America; is that right?

Mr. CARLIN. My expectation is to have that. Let me show you the other side of it.

I have seen plenty of post offices where you have two people in there, probably a postmaster and a rural carrier, and they don't even talk to each other.

So, although the numbers are different, the dynamics are the same, and a lot of it comes back to the way people treat each other, and I don't know that that is all just on managements side. I think it goes to both sides. However, management has the responsibility to provide the right type of a climate.

Mr. HANSEN. Thank you. I appreciate your answer and comments.

Thank you, Mr. Chairman.

Mr. McCLOSKEY. Thank you, Mr. Hansen. I guess we will start another round as to members who still have questions, and I have few, sir.

First, I want to commend you for a confident and overall very cordial presentation. I have learned a lot. However, in all candor, I think some answers have either been less than direct or obviously we are going to have to work together to get a lot more and better information.

I have some concerns along the line, for example, that Mr. Horton has mentioned. I would like to hear from you in a moment on this; \$40,000 to \$50,000 in overtime some employees have been receiving.

I used to be a mayor administering about 600 employees and about 599 of those people would never get more than \$2,000 to \$3,000 a year, or less, at most, in overtime. We did have one that hit \$15,000 once and that stuck out.

But again, sir, as I mentioned before, 30,000 new employees, and a 12-percent excess in your projected overtime. What was happening? Who was administering the post office, and after you answer that, can you tell me when we will have a definite plan so that we can all work together and say, we are just not going to get hit in the face all year, over the next 2 years with this? It just seems very, very loose right now, Mr. Carlin.

Mr. CARLIN. Let me go back approximately 26 months when the volume began coming at us at a very unprecedented rate.

Most managers in the field attempted to handle that volume without adding people because we thought at that point in time that the volume wasn't for real.

They didn't want to add people onto the rolls when they had no history of volume coming in at that rate. They attempted to manage a much greater workload while holding their work force constant.

This means that their people and machines were working overtime. That escalated to the point where we began to recognize that our people were getting tired, our productivity was not as it should be, and that costs were getting very high. As a result of that, we set into motion the process of allowing the field to add more people.

I think that it is under control. Overtime is coming down. We have a system as a result of our labor contracts called the overtime desired list which determines, in large measure, which of our employees want to work overtime and which get it. Management does not have the unilateral authority—

Mr. McCLOSKEY. Mr. Carlin, how high does some of that overtime run? Hearing from Mr. Horton a moment ago, is that common or uncommon, to hit \$30,000 or \$40,000 or \$50,000 a year in overtime?

Mr. CARLIN. I haven't seen the detailed report, but there are instances of employees making \$40,000 to \$50,000 in total salary if they are willing to put in an awful lot of overtime and if it is available. It has been there and they could make that type of money.

Mr. McCLOSKEY. Isn't there an exhaustion problem, even at good pay rates, when you hit \$40,000 a year in overtime. When are they not working?

Mr. CARLIN. That's the very reason why postal management has been engaged in adding more people to handle the workload over the past year. There is an exhaustion factor. There is a productivity factor there—just a plain performance factor.

Mr. McCLOSKEY. How about the aftermath of the very bitter set of labor negotiations. Has that caused a morale problem? What is your opinion of the two-tier system, for example, and is there a morale and production problem, given the hostility that was involved just a little more than a few short months ago?

Mr. CARLIN. I don't see throughout the organization that a morale problem resulted from those discussions. Yes, there were significant differences between management and the unions, but I don't see that that is reflected in the work force itself. The two-tier system has been in since early January and we have saved about \$17 million through accounting period seven hiring people at that lower rate.

Mr. McCLOSKEY. Mr. Carlin, we are going to be working together for some time, but could you give me a general statement or pledge as to when you will have a plan in black and white that will show we will be able to out of this, prayfully, without a rate increase?

Mr. CARLIN. We'll be able to see during the next two or three accounting periods the degree to which the approach we have taken is working. If that doesn't work, well, obviously management is going to have to take some other types of action.

Management knows how to go out and order specific things to take place to bring about results fast. When you do that, you begin that pendulum swing between service and budget, service performance and budget performance. We didn't want to start that swing because we have just come through a cycle where service had dropped. We wanted to hold service where it is and, at the same time, pare down our costs. That's the path that we are on.

Mr. McCLOSKEY. Can you give me a date, though, on a specific and written and general plan that we can get together and review and see where we are, I mean, where it is really, in writing, and how you are pulling all these things together?

You said accounting periods. That doesn't mean too much to me.

Mr. CARLIN. By the end of the summer, we should see whether or not the process that we have set in motion is working.

Let me just give you one illustration: My wife and I went to a restaurant the other night and I was stopped afterward by a young woman who came up and introduced herself as a supervisor. She said that she was well aware of what we are doing and that she was supporting it.

The point I am making is that this time we set it in motion throughout the field. That was just one case, one supervisor just happened to have mentioned that.

But it is very clear to us from the probings we have done that there is a clear understanding by all of our supervisors what has to be done.

Mr. McCLOSKEY. I would like to submit some additional questions in writing, and I would be pleased to have your cooperation on that.

Thank you, Mr. Carlin.

Mr. Chairman.

Mr. LELAND. Thank you very much, Mr. Chairman.

Somewhat related, Mr. Carlin, to the question of equal employment opportunity is the question of equal access to postal service contracts for minority businesses. I think this is just as important as equal employment opportunity within the Postal Service.

The low level of participation by minority firms is a problem that the Postal Service has previously acknowledged. What is the Postal Service, under your leadership, doing to boost the number of minority firms that do business with the Postal Service and can you give us any figures to illustrate how effective your efforts have been, and some projections also?

Mr. CARLIN. Yes. The Postal Service started—maybe we had been doing it before—but we started in a concentrated way in the mid-1970's, about 1977, to award contracts to minority firms to the extent possible.

Let me give you two sets of numbers to indicate what has happened in that time frame. In 1977, we awarded \$8.4 million in contracts to minority firms. This past year we awarded \$139 million. The percentage of total dollars awarded changed from 0.8 to 7.6 this past year.

Another way of looking at that is the number of awards. In 1977, there were 1,645 contracts awarded. This year there were 7,300. Again, as far as percentage of awards is concerned, in 1977 it was 1.7, and now it is 8.3.

Mr. LELAND. I don't know if you have this information available, but let me ask you, in terms of the kinds of jobs that have been contracted with minorities, do they represent, for instance, minority architects or contractors building new post offices or do they represent vendors?

Mr. CARLIN. It includes participation across the board in all of our contracting and specifically has been an A&E type of contracting. It is just across the board.

Mr. LELAND. Let me tell you that this issue is looming now as one of the biggest interests that the minority community is projecting these days in terms of the progress of our efforts to try to reach first-class citizenship. We recognize that the economic wealth of our community is the basic foundation from whence we can spring

to further enhance the quality of life not only for us, but for our families and our community as well.

It is a very important issue. I hope that you give this as much effort—and you have indicated that you have as shown by the successes that you have had recently. I hope that this represents as much fervor in terms of your advancement of the cause of economic enhancement for women, the black, Hispanic and other ethnic minority communities as you pledge to do things in the area of equal employment opportunity.

Mr. CARLIN. Well, Mr. Chairman, we have visited a large number of minority business conferences. I don't know the correct title, but these are where minority business people come together to find out how they can do business with the Postal Service. We participate in a large number of those.

The problem, very frankly, as we try to move into this area is that in some instances, rather than getting a bonafide minority firm, we run into situations where a person is put up as a figure-head but it really isn't a minority firm.

What we have been trying to do is extend business to all minorities.

Mr. LELAND. Maybe we should sponsor some legislation to make it a felonious offense for someone to put up these—well, I call them something else—but these front minority people to rip off the public in this area, because it doesn't usually help in the area of minority contracting.

Mr. CARLIN. We have an aggressive outreach program, Mr. Chairman, and I think that is the reason why our numbers have changed. It's a good change, and if you look at the year-by-year figures, it's an orderly progression and, I think, result of this continuous outreach and setting goals and objectives for both our managers as well as our procurement people.

Mr. LELAND. I would like very much to meet with you on that. I think that this is an area that we can begin to work on and it is very important to me.

Let me ask you now, was the Postal Service consulted by the Office of Management and Budget before that agency decided to seek to increase the Postal Service's contribution to the civil service retirement system?

Mr. CARLIN. It was not. We did provide a drafting service at their request, but we were not consulted.

Mr. LELAND. We have got to get our friend, Mr. Stockman, on the ball and get him better acquainted with what we are doing over here. This is a very serious matter, and I know you would much rather be consulted on matters that affect you and your personnel.

Thank you, Mr. Chairman.

Mr. HORTON. Mr. Chairman, maybe you and I could bring Mr. Stockman over on that.

Mr. LELAND. Why don't we do that? As a matter of fact, why don't I join you, Mr. Chairman, and my ranking minority member to direct such a letter to Mr. Stockman?

Mr. McCLOSKEY. That would be great. Thank you, Mr. Chairman. Thank you, sir.

Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman.

Mr. Carlin, I note in reviewing the records in the Postal Service that I think for 2 of the—there have only been 2 years out of 15, I think it is, that you have operated in the black and those were the last 2 years. All the other years you have been in the red, and now you are anticipating a half billion dollar deficit for this fiscal year.

You have been a little bit general in your statement as to, you said it results primarily from the fact that operating costs have exceeded expectation.

Well, I am sure that that is the reason, but why did the operating costs exceed expectation? What are the operating costs that exceeded expectation? In other words, what is the area in which this deficit is occurring?

Mr. CARLIN. It's in our general operations. It's because transportation costs have gone up and, in fact, because we have added more people to offset the very high overtime that we were paying. Those are all areas in which we are taking actions.

Mr. HORTON. Why couldn't that have been anticipated? I realize it is not your watch. You were not the Postmaster General. You just came on board, but you must have looked at that in your executive capacity since you have been in there.

Mr. CARLIN. I think that the changes that were brought about through contracting for air transportation—

Mr. HORTON. You are talking about the—

Mr. CARLIN. The CAB.

Mr. HORTON. Deregulation?

Mr. CARLIN. Deregulation.

Mr. HORTON. Well, now that could have been anticipated, too. That was on the books for a year.

Mr. CARLIN. I recognize that, but a couple of things happened there. We were not allowed to put it in on a trial basis. We had to put all of those changes in come January 1. A couple of things happened there.

This involves the movement every evening of 5½ million pounds of mail, and involves some 12,000 different air connections. I think that that change has had an impact both in dollars as well as in service patterns that we didn't fully appreciate all of the ramifications on down the stream.

That and the amount of volume that had been coming at us, are the two major things that I see.

Mr. HORTON. Well, now what are you doing to correct that?

Mr. CARLIN. OK. Our service performance as I indicated in my statement, is significantly improved during this interim timeframe. What I have done is turned to the individual—

Mr. HORTON. Excuse me. The volume of mail is not decreasing. It is going to continue to increase, I would think, isn't it?

Mr. CARLIN. It has flattened out to a degree. It is not growing at this point in time to the same degree that we had anticipated it would be growing in our projections. We had anticipated more revenue coming to us, particularly during postal quarter 1, which is the period wherein most of the growth takes place and which offers the opportunity for productivity changes.

Quarter 1 is the months of October, November, and December. The volume didn't come this year in the same degree that we expected it.

Mr. HORTON. Well, then, what are you doing now to correct this problem to try to get it on course?

And how are you going to make savings of half a billion dollars before the fiscal year is over?

Mr. CARLIN. Besides measures already in effect, Mrs. Strange and I pulled all of our field managers together and we went through with them where we were. We indicated to them some courses of action that they could take and then allowed them to begin implementing those on a case-by-case basis.

Mr. HORTON. By what courses of action?

Mr. CARLIN. Pulling down our overtime. Just making basic operating changes in each of the facilities.

Mr. HORTON. Well, that is still general. I am not sure—

Mr. CARLIN. I recognize that that is general. The thing is we can order—

Mr. HORTON. I mean, you know, just general. That's not very good management to say, well, I have just called them in and I have told them to do this and do that, and to cut back, that is not going to solve it. You have got to be specific, and I am just wondering what specific things you are doing to keep the deficit lower than the half a billion dollars and what are you doing—where are you cutting back so that by the end of the fiscal year you will eliminate that anticipated half billion deficit? What are you doing?

Mr. CARLIN. We are doing it through work-hour controls at the unit level. We have asked them to go back and look at their operating plans to make sure that they are working and then to look at staffing and scheduling to make sure that they have the right staffing at the right times to meet the workload demand in each of the installations. That is drudgery, but it is the only way that we can do it in a short timeframe.

Mr. HORTON. Well, you are not looking to eliminate service, though?

Mr. CARLIN. No; we are not. The thing I am trying to avoid here is what happened in the past—1972 is a good example—when we were faced with the same type of a crisis. We addressed it by stopping all hiring, which achieved the results for the short range. However, service began to deteriorate so drastically that we had to start that pendulum swinging the other way and spend an awful lot to restore that service.

What I am attempting to do by giving the maximum amount of flexibility to operating managers is cutting to the bone without affecting service at the same time.

Mr. HORTON. Who has oversight of your operation?

Mr. CARLIN. The Board.

Mr. HORTON. The Board of Governors?

Mr. CARLIN. The Board of Governors.

Mr. HORTON. In other words, they are the only oversight function there is, as far as the Postal Service is concerned?

Mr. CARLIN. Well, the Congress exercises an oversight function.

Mr. HORTON. In what respect?

Mr. CARLIN. In hearings such as this one.

Mr. HORTON. That's the only way. Do you go before the appropriations committee?

Mr. CARLIN. Yes, I do.

Mr. HORTON. What do you ask for there?

Mr. CARLIN. There we have requested revenue forgone appropriations?

Mr. HORTON. That's all?

Mr. CARLIN. That's all. We have not received a direct appropriation since 1982. We have not received an operating subsidy since 1982.

Mr. HORTON. Under your statute, you could come to the Congress and ask for support with regard to a deficit, could you not?

Mr. CARLIN. We could ask for up to \$460 million.

Mr. HORTON. I guess my time is out again, Mr. Chairman.

Mr. CARLIN. But, Mr. Horton, I have full confidence in the Postal Service's people and in the turnaround which is already underway in that—

Mr. HORTON. Well, I am hopeful you are right. I mean I am behind you 100 percent. I want you to know that. The thing I am concerned about is that, as you have given answers that have been general, and I think it would be helpful if you could perhaps spell out for the committee, maybe you could do this in written form, spell out for us specifically what you are doing and what your instructions are so that we have a better picture, specifically of what you are doing in trying to get a handle on that deficit, and then looking down the road, what are you going to do next year and make certain that you are not going to come up with a deficit, that you are going to be operating in the black.

The answer is not always to keep raising those rates. It is kind of like bus passengers. The more the rate goes up, the fewer number of passengers, and then there is a clamor for us to do this or do that in order to solve the problem in order to keep the mail going, and you may find yourself in a very difficult situation if you keep running these deficits.

Mr. CARLIN. You and I have no disagreement on those points.

Mr. HORTON. Well, I think it would be helpful if you gave us something in writing that we could have before the committee so that we would understand just what you are doing specifically to get a handle on this problem.

Mr. CARLIN. I would be happy to share with you the actions which have been undertaken by the five regions in order to achieve this. Preliminary indications are that the turnaround is beginning to take place. I am caught in an awkward timeframe here since we have set programs in motion and yet I don't have any figures that I can come back and show you.

For whatever confidence it can give you, I have served as a regional postmaster general for 5½ years. Mrs. Strange has served as a regional postmaster general. We have set programs like this into motion in the past, and you can see some of the results over the past 5 or 6 years that we have been in the field. This one is set well and I see the results coming in. I am just in an awkward position. I just don't have the hard figures to come back to you with at this point in time.

Mr. McCLOSKEY. As you know, Mr. Carlin, I share Mr. Horton's concern about specifics and Mr. Horton and I can't emphasize that

enough. Do you care to take another 5 minutes. There is no time constraint right now, if you have any further questions, sir.

Mr. HORTON. Well, I was going to get into this electronic computer mail—this is a different subject.

I understand that there has been an announcement that you plan to terminate that service. Why are you going to do that? Why has it not lived up to expectation?

Mr. CARLIN. You are referring to E-COM, electronic computer-originated mail?

Mr. HORTON. Right.

Mr. CARLIN. As it is currently constituted, it is not paying its own way and it shows no prospects of paying its own way. A decision was made some time ago to divest ourselves of the E-COM equipment.

Mr. HORTON. How much was involved in that? How much was invested in that operation? If you don't have it, supply the figure later.

Mr. CARLIN. I would be happy to supply it for the record. It is something over \$85 million.

[The information follows:]

E-COM COST/REVENUE SUMMARY—CASH-FLOW BASIS

[In fiscal years and thousands]

	1982	1983	1984	1985 thru A/P 8	Total
Volume (Pcs)	3,229	15,321	22,990	14,766	56,306
Revenue	\$1,075	\$4,489	\$6,538	\$3,963	\$16,065
Operating costs	\$9,528	\$16,967	\$18,476	\$10,234	\$55,206
Operating deficit	\$8,453	\$12,478	\$11,938	\$6,271	\$39,141
Investments	\$40,238	\$14,943	\$4,616	\$112	\$59,910
Total deficit	\$48,691	\$27,421	\$16,554	\$6,383	\$99,051

Mr. HORTON. And you are moving out of that, so that is going to be eliminated; is that correct?

Mr. CARLIN. That's correct. Over the past year, we have been attempting to divest ourselves of it by selling it to the private sector. We have not yet received any firm offer that is financially attractive enough for us to accept. That is why I announced to the Board that we would be moving promptly to terminate the access arrangements under the E-COM program.

Mr. HORTON. Now, also that is nine-digit mail.

Mr. CARLIN. May I say one other thing before we move from E-COM?

Mr. HORTON. Yes.

Mr. CARLIN. I think it is important that we can't afford to, as the Postal Service, to ignore what is happening in the electronic technology field. It is affecting virtually all of America and we are going to have to continue to explore and find ways that we can use that technology to help us to reduce our costs.

Mr. HORTON. Well, I think that is a good idea. I don't know what you are doing with regard to research in that respect, but it is very true. I am no expert in it, but I can see where electronic mail can

be very helpful and some of the new technologies might make letters obsolete.

Mr. CARLIN. We will continue to search for an appropriate role for the Postal Service.

Mr. HORTON. Do you have a fund that you set aside for research, with regard to the new innovations in the mail field?

Mr. CARLIN. Yes, we do. In fact, in the last 2 or 3 years we have formalized it to a more significant degree and we have a special unit which works on 5 years and beyond. They do some of the basic research, leading to the development of products and services for us. It is a very active committee.

Mr. LELAND. Will the gentleman yield?

Mr. HORTON. I would be glad to.

Mr. LELAND. I would like to join Mr. Horton, the ranking minority member on the Postal Operations Subcommittee, and talk to him about possibly doing a joint hearing with the Telecommunications Subcommittee. We could invite the Postmaster General in to testify about the future of the Postal Service's involvement with the new advances in technology, as well as, the potential and opportunity that might prevail. This could also include bringing in some members of the private sector to talk about where we can or where we should go.

Mr. HORTON. Now, coming to another subject, the nine-digit, where does that stand? Is that a paying operation? Is it working well?

Mr. CARLIN. The ZIP+4 is a geographic identifier.

Mr. HORTON. I know what it is, but the question is, is it working? Is it worth its while and how much are you spending on it?

Mr. CARLIN. I can't give you a figure as to how much we are spending on it, but it is beginning to grow. Last year we had 2.3 billion pieces of mail. This year it looks like we will have about 6 billion pieces of mail bearing the ZIP+4 coding system.

The ZIP+4 offers the Postal Service the main means for automating processing procedures all the way down to the final distribution of mail. Like five-digit code usage in the beginning, it started slowly. Presort usage which is so popular now with many of our customers, also started slowly and then began to build.

And I think we are going through that type of a buildup.

Mr. HORTON. Thank you, Mr. Chairman.

Mr. McCLOSKEY. Thank you very much, Mr. Horton.

Mr. Chairman.

Mr. LELAND. Mr. Chairman, I don't have any further questions. I would like, however, to compliment you on your leadership today. I think on your virgin run through the gauntlet you have done very well, and I would just like to commend you for it.

Mr. McCLOSKEY. Thank you, Mr. Chairman. It is great working with you, also.

Is there any further business before the committee?

Mr. HORTON. I would like to thank the Postmaster General and his staff.

Mr. CARLIN. May I add just one other thing. Many of the customers who have come on are the very largest of the mailers in the United States. That is usually what happens and they provide the

lead with the smaller and medium-sized firms tending to follow. This is on the ZIP+4 usage.

Mr. McCLOSKEY. Mr. Carlin, we will all work closely with you on these problems. We enjoyed your presentation today. I can't stress enough the need for specifics though, and I thank you very much.

[Whereupon, at 11:35 a.m., the subcommittee adjourned, to reconvene at the call of the Chair.]

[The following responses to written questions were received for the record:]



THE POSTMASTER GENERAL

Washington, DC 20260-0010

July 29, 1985

Honorable Mickey Leland
Chairman, Subcommittee on Postal
Operations and Services
Committee on Post Office and
Civil Service
House of Representatives
Washington, D.C. 20515

Dear Mickey:

This is in response to your June 20 letter, posing additional questions for the record of the June 11 oversight hearing before your and Chairman McCloskey's Subcommittees.

Enclosed, please find the responses to your questions. If you require additional information, please call me or have your staff contact Mr. William T. Johnstone, Assistant Postmaster General, Government Relations Department, on 245-4181.

Sincerely,

Paul N. Carlin

Enclosures

BEST COPY AVAILABLE

- Q. Was the Postal Service consulted by the Office of Management and Budget before that agency decided to seek to increase the Postal Service's contribution to the Civil Service Retirement System?
- A. The Postal Service was not consulted on the substance of this proposal. The Service merely provided a drafting service at the request of the Office of Management and Budget.
- Q. Since the Grace Commission's recommendation to close 10,000 post offices is based on a 1975 G.A.O. report, can you tell this Committee how great a savings the Postal Service would realize today if it instituted the wholesale closing of small and rural post offices?
- A. Inasmuch as the proposal to engage in the wholesale closing of small post offices did not originate with the Postal Service and is one with which the Service does not agree, it can neither verify the accuracy of the savings estimates made by either the General Accounting Office or the President's Private Sector Survey on Cost Control nor can it offer substitute cost savings figures.
- Q. What problems do you anticipate for the U.S. Postal Service and its mailers, if cross-subsidization becomes policy?
- A. Most discussions regarding cross-subsidization have focused on transferring the institutional cost burden of preferred rate mail to regular rate mailers. While not

technically a cross-subsidy in economic terms, the end result is that preferred categories of mail would avoid any of the costs required to maintain the overhead of the postal system.

We have grave concerns about requiring some mailers to help pay other mailers' share of overhead costs. There are several very important reasons for these concerns. First, it must be recognized that there are many competitors for mail delivery. United Parcel Service, Federal Express, electronic message transmission systems, private delivery firms, and newspaper inserts are some of the largest competitors. Any artificial increase in postal rates to subsidize a social welfare expense would make the Postal Service less competitive in the marketplace. This artificial increase in the level of rates would, over time, result in a shift of mail to private competitors and thereby erode the financial position of the Postal Service. This would in turn result in the need for further increases in postal rates for private citizens and commercial customers. It should be noted that private citizens may also be adversely affected to the extent the commercial customers pass their higher operating expenses along to consumers in the form of higher prices.

Another problem is that many mailer groups are competitors of each other. As an example, in fund raising efforts some nonprofit organizations may market products which are sold by businesses. Also, for-profit and nonprofit publications frequently compete for the same advertisers and subscribers. Raising the rates for regular rate mailers to recover a shortfall from preferred rate mailers results in increasing costs for one group of competitors in order to reduce costs for another. Regular rate mailers could take the point of view that such a loss was the equivalent of taking money from their bank account and putting it in some of their competitors' bank accounts.

Finally, there is an underlying question of fairness and the justification for Congress deciding that the general welfare is improved by providing subsidies to specific groups and then requiring that those subsidies be paid only by certain users of the postal system through higher postage rates. In effect, a large financial burden would be imposed upon profit-making postal customers to carry out a program designed to benefit society in general.

- Q. In your recent statement to postal managers, you said that one of the reasons for the Postal Service's financial situation is the excessive use of overtime and the costs incurred therein.

To what do you attribute the continually high use of overtime? What steps are you taking to remedy the situation? Are you hiring more employees to cope with the situation? If you are hiring, are they temporary or permanent employees? Why can't the Postal Service determine ahead of time what its personnel needs will be and hire accordingly? Is it a problem with the methodology that the Postal Service uses, or is it that the Postal Service is simply not hiring the necessary personnel?

Along these same lines, in your statement today you noted that personnel costs are or will be the focus of Postal Service attempts to reduce its financial losses. How do you propose to reduce personnel costs?

I would like you to explain what you mean when you say the Postal Service must, and I quote, "Tap more of the available creative energies of our people in order to reach our full potential", unquote. How do you plan to do this?

- A. The high use of overtime in the recent past has been largely a function of the unprecedented surge in mail volume in Fiscal Year 1984 and the early part of Fiscal Year 1985. It has also stemmed from some major system changes that were recently introduced into postal operations, such as the processing of all second-class mail in the preferential mailstream and the advent of the Air Contracting Data Collection System that became operational in January of 1985. While these system changes will produce improvements in service and/or

efficiency in the long run, the initial adjustment period did place some stress on our resources. These start-up problems are now being overcome. Beyond this, the Postal Service was reluctant to hire extensively during the period prior to the deployment of the automated mail processing equipment out of concern that the new hires would become surplus to the Postal Service's needs once the less labor intensive optical character readers and bar code sorters became operational. As it turned out, however, the unanticipated increase in mail volume more than offset the substantial productivity gains produced by the automated equipment and many large facilities were caught shorthanded. Although this was soon recognized, the time between the initiation of hiring action and the development of a productive employee often takes as long as six months.

It is also worth noting that some level of overtime is necessary from the standpoint of overall system efficiency. If the Postal Service were to staff its facilities to meet peak workload requirements using straight time workhours only, they would be heavily overstaffed during normal or low volume periods. Overtime, when used judiciously, can therefore be an effective mechanism for reducing personnel costs.

The overtime situation is now being rapidly remedied. During the most recent accounting period for which system-wide statistics are available (AP 10), the overtime rate dropped to 5.6 percent from a year-to-date average of 9.3 percent. This reduction was achieved through a variety of means. One was to task each level of management down to the individual operating unit with specific overtime reduction goals. Another was to promote a greater awareness among field managers of the cost of overtime as opposed to straight time, particularly in the time since the penalty overtime provision in the most recent labor contracts took effect. The emphasis all the while was on "back to basics" in managing resources more efficiently and managers and supervisors in the field have been responsive to this call. Where the need was evident, hiring additional employees was recognized as the prudent solution. The postal workforce now numbers 746,000 paid employees, up 44,000 over the past twelve months. Of the number newly hired, 34,000 are permanent career employees while 10,000 are temporary or casual employees.

Since mail volume is the primary determinant of personnel requirements, our hiring plans are heavily contingent upon projected volume growth. This growth in

turn is closely linked to the state of the economy. As did many of the nation's leading economists, the Postal Service underestimated the speed of the economic recovery over the past few years. We are fully satisfied that our methodology for estimating short and long term employee complement requirements--involving computer modeling at local installations--is adequate to the extent economic and related external influences are predictable.

It is difficult to summarize all of the steps being taken nationwide to reduce personnel costs. Literally thousands of problem-solving steps are involved in large and small offices across the land. At the Headquarters level postal management can--and has--prescribed remedial actions. All Regions and field operating units have been directed to adjust their workhour and overtime usage goals. At a nationwide meeting of District and Sectional Center Managers, the Postmaster General spelled out in great detail the stark nature of current financial circumstances and told them of his expectations in terms of the job that needed to be done. The same message was conveyed to successfully lower management levels at countless follow-up meetings around the country so that the awareness level is very high throughout the system. Inspection Service audit teams

were dispatched to several high-impact offices across the country and they identified problem situations that are now being rectified. Follow-up actions on these audit recommendations are being effectively monitored at higher management levels. Field management is being held accountable for properly using available management tools and cost reduction strategies. The automation of mail processing operations is one such strategy. Centralized delivery is another. Computerized models for scheduling and staffing and production planning purposes are yielding productivity improvements, as are new data management techniques now being dispersed to field operating units. These and countless other programs are all designed to assist us in achieving our personnel cost reduction goals.

The statement noting the need to "...tap more of the available creative energies of our people in order to reach our full potential" alludes to the Postal Service's conviction that traditional authoritarian management must be supplanted by a more enlightened philosophy of management based upon participative problem solving, open communications, trust, individual accountability, and a collaborative as opposed to adversarial relationship between management and labor. We expect to achieve this change through the selection

of managers who demonstrate the skills necessary to make this management style work and to reward those who are successful in doing so. The Employee Involvement/Quality of Worklife process is gaining momentum and credibility and will have a major impact on how employees' creative energies can be directed toward organizationally purposeful activities.

Q. I notice in your recent statement to postal managers you make reference to the study done by Dr. Kenneth Clark on Postal Service hiring and promotion policies. I was glad to see that as Postmaster General you acknowledged the study's findings and the value of those findings. Up until your tenure, the Postal Service had not given any credence to the study, its findings or recommendations. That was incomprehensible since the Postal Service paid three-quarters of a million dollars to a very highly regarded organization to conduct the study. Based on the Clark Study findings, you outlined new policies the Postal Service is implementing to foster equal employment opportunities for women and minorities. How is the plan progressing? Have you seen any results thus far? Do you have any plans to alter the plan in any way? Do you plan to make further use of the Clark Study findings, and, if so, how?

A. The new policy is embodied in the six-points outlined by the Postmaster General in his April 10 memorandum to all Postal Career Executive Service (PCES) Executives. Although it has been less than three months since the April 10 memorandum was issued, the Postal Service is steadily improving in the area of upward mobility for women and minorities and three women have been promoted into the PCES ranks. There has also been positive

movement in the career development of six minorities -- 2 PCES candidates have been assigned as acting MSC Managers/Postmasters and four PCES Executives have been reassigned to more responsible, higher-level jobs. At this point, we do not plan to alter any policies outlined in the April 10 memorandum.

Although the Clark Study did not identify any specific Postal Service policies or procedures as discriminatory, it addressed the problem of "perceptions" held by employees. Dealing with employees' perceptions is a difficult process, particularly when such perceptions are critical of processes which are in fact nondiscriminatory. Two ways in which the Postal Service is addressing this are to emphasize improved human relations skills for managers and supervisors and to increase all employees' understanding of the Postal Service's continued progress in equal employment opportunity and affirmative action. Both efforts should serve to reduce adverse perceptions held by employees.

- Q. You have stated on several occasions your commitment to equal employment opportunity within the Postal Service for all its employees. You recently made 23 high level appointments in the Postal Service and I was disappointed to find that no minorities were included in the group. Please explain how this could have happened.

- A. The Postal Service recently made a series of officer and PCES reassignments and promotions. In March 1985, the Service appointed 15 officers, one of whom was an Asian-American female. Since March, three minority executives have been reassigned to higher-level jobs; one as an MSC Manager/Postmaster and two as Regional Directors. Additionally, since the April 1985 memorandum, the Postal Service began a new policy whereby the applicant process for executive positions will now, where possible, include consideration of qualified women and minorities. In the last three months, three minorities, one of whom was a female, have been promoted into the ranks of the PCES. Finally, two PCES candidates are detailed to Postmaster positions and four minority executives have been reassigned to higher-level positions.
- Q. As a part of your EEO program, you said you were using managers to eliminate barriers to equal employment opportunities for all employees. What happens when a manager is the barrier?
- A. This problem is being addressed at the highest levels of postal management and by EEO professionals on a daily basis. The Postal Service is sending the very specific message to its managers that they have a line responsibility for equal employment opportunity and affirmative action. At the same time, EEO professionals

will now be spending a majority of their time following-up on the line managers' progress in EEO. In May 1985, the Postal Service completed a two-week training course for EEO Specialists who will begin working with postal managers to monitor the recruitment, retention, and promotion of minorities and handicapped employees within post offices. They will also work directly with postal managers to identify high-potential employees, foster career development, and identify and eliminate barriers to upward mobility.

- Q. One of Dr. Clark's recommendations has found life in your proposal to include in managers' performance evaluation their EEO track record. I think this is a very commendable idea, but it will only be effective if a manager's EEO record is given sufficient weight. How much weight do you envision giving to EEO performance?
- A. There is no question that EEO performance is given strong emphasis in merit evaluations. The Postal Service has included the fair treatment of employees and EEO performance in the merit evaluation process for managers for many years. However, the various factors in the evaluation process such as financial integrity, service, and safety, as well as EEO performance, are not numerically weighted. In fact, the weight to be given the different factors may vary according to the particular job. This in no way decreases the importance of EEO performance. To the contrary, to assist in

emphasizing EEO performance, the Office of EEO will be focusing much attention on training and assisting managers in understanding the EEO complaint process and affirmative action. Postal Service regulations, handbooks, and guides in the EEO/AA area are being updated and will be reissued within the near future.

- Q. Another of Dr. Clark's recommendations that I would like to see implemented is one that would have the Postal Service's EEO Officer reporting directly to the Postmaster General. Are there any plans to make this a part of the new EEO efforts?
- A. At present, we do not contemplate changing the reporting relationship in the EEO area. The EEO Officer for the Postal Service is the Senior Assistant Postmaster General for Employee and Labor Relations who reports directly to the Postmaster General and is responsible for the EEO program throughout the Postal Service. The Executive Director, Office of Equal Employment Opportunity, on the other hand, is responsible for the practical development of EEO policies and procedures and the day-to-day management of the complaint-processing system. The Executive Director reports to the Assistant Postmaster General for Employee Relations, who in turn reports directly to the Senior Assistant Postmaster General for Employee and Labor Relations. Where necessary, the Executive Director has direct access to

BEST COPY AVAILABLE

the Postmaster General on any EEO matter.

The Postal Service believes that the current reporting relationship addresses employee concerns about discrimination or affirmative action. The solution from the Postal Service vantage point is that the change to be fostered is making EEO a line responsibility of Postal Service managers. Moreover, if EEO remains in the Employee and Labor Relations Group, EEO professionals, as a part of that group, can work more easily within the organizational structure to affect the needed changes.

- Q. What is the Postal Service, under your leadership, doing to boost the number of minority firms that do business with the Postal Service? Can you give us any figures to illustrate how effective your efforts have been?
- A. During the past fiscal year the Postal Service reemphasized its commitment to increasing minority and small business involvement in the procurement process by consolidating its efforts under the Outreach Program. This program is an active, joint search for small and minority-owned firms capable of winning their fair share of the Postal Service procurement dollar. The Postal Service increased its participation in the program during Fiscal Year 1984, by attending 125 minority and small business conferences sponsored by Members of

Congress, small and minority business associations, and other federal agencies. The Postal Service also sponsored 30 minority business opportunity conferences nationally to familiarize entrepreneurs with the way to do business with the Postal Service.

Minority business enterprises received 8.3% of all contracts issued in Fiscal Year 1984. This is an increase from 7.8% in Fiscal Year 1983. The dollar amounts awarded to the minority business sector have also increased annually since statistics were maintained beginning in Fiscal Year 1977. The percentage of total dollars increased to 7.6% in Fiscal Year 1984 from 7.3% in Fiscal Year 1983. The total dollars awarded to minority entrepreneurs since Fiscal Year 1977 are as follows:

<u>Fiscal Year</u>	<u>Dollars (millions)</u>	<u>% of Total \$</u>
1977	8.4	0.8
1978	16.6	2.5
1979	47.9	3.7
1980	77.6	6.3
1981	93.1	5.4
1982	98.8	7.5
1983	115.6	7.3
1984	139.1	7.6

Small businesses received 72.8% of the total Postal Service contracts awarded in Fiscal Year 1984, and 70.6% of the total procurement dollars awarded. Under the

Outreach Program, the dollar amount of awards to small businesses has increased significantly since Fiscal Year 1977, as is demonstrated below:

<u>Fiscal Year</u>	<u>Dollars (millions)</u>	<u>% of all \$</u>
1977	609.3	59.9
1978	356.1	53.9
1979	743.9	57.6
1980	739.2	60.3
1981	1509.7	87.3
1982	954.0	72.0
1983	1200.3	75.6
1984	1280.7	70.6

The Postal Service recognizes the importance of the minority entrepreneur in our Nation's commerce and is taking a number of actions to support the program consistent with the goals of the Postal Service:

- Continued management emphasis on the high priority the Postal Service has placed on the program and the responsibility of requirements and procurement officials to increase contract awards to minority entrepreneurs.
- The conduct of seminars and meetings with Headquarters and field procurement managers to determine progress toward achieving minority award objectives, identifying and discussing problem areas, determining the potential for greater involvement; and stimulating results.

- The establishment of a Postal Service Minority Business Enterprise Council, comprised of key Headquarters and regional personnel, to review existing and proposed policies and procedures to determine whether changes can be affected to further assist and promote the program.
- The proposed establishment of a Postal Service Minority Enterprise Steering Committee, comprised of journeyman procurement personnel, to focus at the operational level on improvements that can be effected in support of the program for consideration by the Minority Business Enterprise Council.
- Headquarters audits of procuring activities to determine progress in increasing awards to minority-owned firms and the adequacy of internal operating procedures, verify compliance with program directives, and determine the amount of emphasis placed by management and contracting personnel on the achievement of objectives.
- A continuing Outreach Program that participates actively at and sponsors minority business opportunity conferences nationally to reach a greater number of potential minority contractors.

- The inclusion of minority subcontracting clauses in all construction contracts valued at more than \$500,000. In architect-engineer contracts, minority participation is either mandatory or a consideration for selection. The architect-engineer is required to investigate the availability of qualified minority-owned firms for subcontracting requirements and also recommend a realistic minority objective that is included in the construction contract.

Q. In your statement, you mentioned the problems in second class arising from the decision to place all second class mail in the preferential mail network. Although you were not responsible for the decision to implement this policy, I would like you to tell me, if you can, why the Postal Service decided to make this change?

A. The second-class handling change had been under consideration for some time prior to its announcement. In the Fall of 1983, former Postmaster General Bolger received a proposal from a second-class mailer association to change the handling procedures for this class of mail. This proposal essentially was the second-class change which appeared in the March 1, 1984 Postal Bulletin and Federal Register notice. Existing regulations were reviewed and operational impacts were assessed and it was determined that there were significant near and long term benefits to be gained

from this complex change to a relatively small volume of mail. In retrospect, looking at the Postal System after implementation, this is still true.

- The second-class shift provided one network for handling second-class mail. Prior to the change, second-class mail was handled in two separate systems. Part of second-class was given preferential or newspaper treatment, while other publications (which we then called ordinary papers) were handled as bulk business mail. These two separate systems resulted in inconsistencies in handling and service, which gave rise to a significant number of mailer complaints. Additionally, in the past there was no nationally-consistent method for authorizing newspaper treatment. This made it difficult and, in many cases, impossible to operationally determine which publications should receive newspaper treatment and which ones should be treated as bulk business mail.

From a management standpoint, combining the handling of second-class mail into a single system provides more effective control of operating plan performance for this mail and reduced the confusion

which resulted from trying to distinguish between the two different kinds of publications in mail processing and delivery operations. Furthermore, handling all second-class mail in the surface preferential mail network eliminated the problems associated with managing different distribution networks for second-class mail.

- The second-class handling change reduced sack sorter workload and helped to alleviate the existing sack sorter capacity problems in bulk mail centers (BMCs). When the change decision was made in March of last year, four BMCs were exceeding capacity during heavy volume seasons of the year. The increase in sack workload resulted from the conversion of second- and third-class mail to presort rate categories and the very rapid growth of third-class mail. Over the past five fiscal years, third-class mail volume increased by 75%. The strong growth trend for third-class mail continued in Fiscal Year 1984, when volume increased 18 percent to 48 billion pieces, or 36.7 percent of total mail volume. The removal of second-class mail from the BMCs has created additional capacity which is presently being absorbed by continuing third-class mail volume

growth. The removal of second-class mail from BMCs is important in managing third-class mail volume growth in the near and long term.

- The second-class change resolved impending legal problems since prior to making the change the Postal Service was on the verge of a lawsuit with the publishers of bi-weekly and monthly publications. These publishers maintained that their publications contained news value information and that since they paid the same rate of postage, they should receive service equivalent to that which publications authorized newspaper treatment received. The two separate networks for the handling of second-class mail caused inconsistencies in service.
- The second-class change would result in more consistent service for all second-class mail. Newspaper treatment handling was difficult, if not impossible, to administer operationally. Once out of the sacks, second-class mail lost its identity and mail processing and delivery managers could not know which way a particular publication was supposed to be handled. Because of this identification problem, some second-class mailers

authorized newspaper treatment were not receiving it and conversely, bulk business mailers of second-class publications were receiving it on a local basis. The Postal Service received many complaints from mailers and subscribers about inconsistent service.

Q. Could you tell us in more detail exactly what problems you are experiencing in second-class?

A. The operational impacts at general mail facilities are in the following areas:

- Second-class mail previously handled as ordinary papers was processed and routed through our bulk mail centers. This volume now travels through the surface preferential network and in some instances has created the need to enhance transportation so as to meet service commitments. Service commitments for bulk business mail allow up to 10 days for delivery, compared to the maximum of 7 days for delivery of surface preferential mail.
- Second-class mail previously processed through the bulk mail centers was shifted to general mail facilities. This shift in volume resulted in an increased workload at 24 facilities known as Transfer Hubs. This Transfer Hub network was

established to allow the mailers, as well as the Postal Service, to consolidate second-class mail by specific geographic areas and transport this volume to a designated general mail facility.

- All second-class mail now must be processed to meet surface preferential service commitments. Second-class mail previously processed in off-peak hours with bulk business mail now must be processed in conjunction with First-Class Mail. This required changes in staffing at our general mail facilities.

Q. How badly has second-class service performance been impacted?

A. At the beginning of the year while the Postal Service as implementing the second-class change, it was also implementing air contracting and the associated Air Contracting Data Collection System. The combination of these two changes was difficult to handle. Consequently, service for all classes of mail did decline. The Service has been working intensely on the problems and has resolved many of them. We are now on our way to achieving more consistent service for second-class mail in the surface preferential mail network.

Q. Is the change in second-class having any effect on other classes of mail?

A. There should be no negative impact on service for any other class of mail. It is important to realize that the handling change has not increased second-class mail volumes. The change did shift the sites where some second-class mail is handled. This change has created additional bulk mail center sack sorting capacity which enables bulk business mail to be processed in a more timely manner and should improve the level of service for that class of mail.

Q. What is the Postal Service doing to combat the problems arising from the change?

A. The Service has been and still is working closely with mailers to resolve service-related problems. Service data received from various mailers now show service improvement equal to and in some cases improved over the same period last year. Postal Service Headquarters will continue to work closely with its regional offices, as well as with the mailing industry, to ensure that service commitments to second-class mailers are met.

Q. As I acknowledged earlier, the decision to make the change in second-class preferential mail was not yours but in your opinion was the Postal Service prepared for the increased volume in the preferential mail network?

A. With any change there are start-up problems. As stated previously, the 10 month transition time provided a phase-in period to allow the necessary adjustments in operations at our general mail facilities. Adjustments in the areas of transportation, general mail facility operations, and staffing were made prior to January 1, and continue to be made as necessary to accommodate this increased mail volume in the surface preferential mail network.

Q. You mention that you are keeping your customers informed as to what the Postal Service is doing in the area of locating problems and developing solutions to those problems. How is the Postal Service keeping its customers informed?

A. The Service is working closely with mailers and has established Regional Focus Groups, comprised of Postal Service representatives and members of the mailing industry. These focus groups will identify second-class service-related problems and provide the specific information the Postal Service needs to resolve them. Each focus group will meet periodically to discuss concerns and review problem areas identified by the mailers. In response to the concerns identified by the

focus groups, corrective measures will be initiated by the Postal Service. The findings and resolutions of each of the five regional focus groups will be channeled back to the mailing industry through their established groups and associations.

- Q. You note that Express Mail performance has improved 7 percentage points. I would like to know what the performance level was before it improved and what it is now. Is the Postal Service satisfied with the improvement? What are you doing to improve further?
- A. At the close of Accounting Period 9, Express Mail service had improved by 7.9% over that during Accounting Period 4. Figures for that period were 85.1% and had increased to 93.0% in A/P 9. Although this improvement is notable, performance has not yet reached the national goal of 95%. Additional increases are anticipated because of a continuing effort to further improve performance. Methods include the attention of a national task force and regional and local improvement teams. A new and expanding network of night flights will contribute to the improved on-time delivery. Finally, a management staff and work force fully committed to service improvement will continue to enhance this valuable service.



THE POSTMASTER GENERAL

Washington, DC 20260-0010

July 29, 1985

Honorable Francis X. McCloskey
Chairman, Subcommittee on Postal
Personnel and Modernization
Committee on Post Office and
Civil Service
House of Representatives
Washington, D.C. 20515

Dear Frank:

This is in response to your June 13 letter posing seven questions to be answered for the record of the June 11 oversight hearing.

Enclosed please find the responses to your questions. If you require additional information, please call me or have your staff contact William T. Johnstone, Assistant Postmaster General, Government Relations Department, at 245-4181.

Sincerely,

Paul N. Carlin

Enclosures

BEST COPY AVAILABLE

Q. You mentioned at the joint oversight hearing on June 11 that the five Postal Service regions have been instructed to take steps which will help reduce expenditures and improve the agency's financial posture. Would you please provide a more detailed explanation on the actions which the regions will be taking to reduce costs, particularly in terms of work hour usage?

A. Please refer to the attached letter.

Q. In trying to reduce Postal Service expenditures and turn around the agency's deficit situation, what specific steps will you take to ensure that service to postal customers is maintained at a high level?

A. While there is always a risk in shifting attention from one priority area to another, the Postal Service will not achieve its cost reduction goals at the expense of service. Accordingly, service improvement efforts are not in any way being curtailed and the Postal Service remains active on several fronts to ensure that proper service is rendered to postal customers. The impact of the programs and activities described below has been apparent in recent months as the slippage in service earlier in the year has been reversed and service returned to the levels achieved during the same period last year or higher. The Postal Service will place continued emphasis on sustained service improvement through various accountability mechanisms built into the regular performance monitoring and appraisal system.

Second-Class Committee

The Postal Service, in cooperation with representatives of various publications, has established regional focus groups comprised of mailing industry representatives and Postal Service representatives from the primary functional areas of Mail Processing, Customer Services, and Mail Classification. These focus groups identify second-class service problems and forward specific information concerning them to the Industry Chairman of the committee, with a copy to the In-Plant Processing Office at Postal Service Headquarters. The Postal Service and the mailing industry representatives then work together to solve these problems.

National Service Improvement Network Committee

The National Service Improvement Network Committee is made up of representatives from the five postal regions and coordinated by the staff of the Mail Processing Department at Postal Service Headquarters. The committee is tasked with the responsibility of improving the service performance of two- and three-day destinating First-Class Mail. The thrust of the committee has been to analyze transportation contracts and recommend adjustments where arrival times are later than the critical entry times needed by postal facilities. The efforts of this committee have brought about significant improvements in service performance.

Parcel Post Improvement Program

The Parcel Post Improvement Program is a nationwide effort to improve both Intra-BMC and Inter-BMC parcel post service. This program has four main features. Specific van unloading parameters have been established by each region which require both Bulk Mail Centers and Sectional Center Facilities to unload vans within a defined timeframe. Transportation schedules have been changed to align dispatches more closely with the volumes processed. The Postal Service has gone to a cross-functional approach, with Mail Processing and Customer Services working together to improve service. Finally, management attention to parcel post service has been heightened at all levels of the Postal Service.

This program will be fully implemented nationwide by the beginning of Fiscal Year 1986. Through A/P 9, Intra-BMC parcel post service has exceeded that for the same period last year for 13 consecutive accounting periods, while Inter-BMC service has exceeded service during the same period last year for the seventeenth consecutive accounting period.

Quality Control Program

Quality control, in part, involves instructing Letter Sorting Machine supervisors in the use of control charting to focus attention on transportation and LSM distribution problem areas. The information gained from this process enables changes to be made to transportation schedules and LSM schemes which allow the processing and handling of mail in the most economical manner possible. By implementing and supporting the quality control effort through training and proper management, it is possible to capture workhour savings and improve service by tracking.

Stale Mail Program

The Postal Service is testing a dedicated operation on an experimental basis at ten sites nationwide to provide a systematic method for processing, labeling, and dispatching mishandlings within the mail processing plant captured after the close down of an operation. This project will contribute to service improvement efforts by advancing the opportunity for delivery of this mail within service standards or by minimizing delays. Subsequently, by identifying where mishandlings occur, management will direct attention to correcting the deficiencies within the system, thereby avoiding expensive rehandling costs and reducing total operating expenditures.

Miscellaneous Service Improvement Efforts

- Route and unit reviews to identify and correct deficiencies.
- Best case/worst case analysis of all delivery and retail operations. (Immediate corrective action is required.)
- Daily reviews of mail condition reports.
- Accounting period and quarterly regional performance reviews.
- Customer Service Improvement Process at fifty sites to identify problems. (Immediate corrective action is required.)
- Quality assurance audits to monitor computer forwarding system, missort/missent, and undeliverable as addressed handling procedures.

- Collection Improvement Program to get mail to processing centers earlier in the day and to carriers earlier in the morning. Constant review of box locations and collection times.
- Increased usage of vending equipment and integrated retail terminals.
- Lobby service surveys to identify service deficiencies.
- Dissemination of Inspection Service audit findings and a requirement that all offices review these findings.
- Mail Address Improvement effort with major mailers to improve current addressing systems and to identify and eliminate addressing deficiencies before mail enters the mailstream.
- Increased use of automation to maintain change of address information and provide mailers with ready access to it.
- Constant emphasis on service at all management meetings.

Q. I am quite concerned about the excessive use of overtime, particularly because of the adverse effect on both postal employees and the agency's fiscal plan. Would you please explain how you will reduce the level of overtime usage and whether additional hiring will take place as part of this plan? Also, please indicate in which areas of the Postal Service overtime usage has been most prevalent (i.e. mail processing, delivery, bulk mail processing). What steps will you take to prevent unnecessarily high overtime usage in the future?

A. The high use of overtime in the recent past has been largely a function of the unprecedented surge in mail volume in Fiscal Year 1984 and the early part of Fiscal Year 1985. It has also stemmed from some major system changes that were recently introduced into postal operations such as the processing of all second-class mail in the preferential mailstream and the advent of

the Air Contracting Data Collection System that became operational in January of 1985. While these system changes will produce improvements in service and/or efficiency in the long run, the initial adjustment period did place some stress on our resources. These start-up problems are now being overcome. Beyond this, the Postal Service was reluctant to hire extensively during the period prior to the deployment of the automated mail processing equipment out of concern that the new hires would become surplus to the Postal Service's needs once the less labor intensive optical character readers and bar code sorters became operational. As it turned out, however, the unanticipated increase in mail volume more than offset the substantial productivity gains produced by the automated equipment and many large facilities were caught shorthanded. Although this was soon recognized, the time between the initiation of hiring action and the development of a productive employee often takes as long as six months.

It is also worth noting that some level of overtime is necessary from the standpoint of overall system efficiency. If the Postal Service were to staff its facilities to meet peak workload requirements using straight time workhours only, they would be heavily

overstaffed during normal or low volume periods. Overtime, when used judiciously, can therefore be an effective mechanism for reducing personnel costs.

The overtime situation is now being rapidly remedied. During the most recent accounting period for which system-wide statistics are available (AP 10), the overtime rate dropped to 5.6 percent from a year-to-date average of 9.3 percent. This reduction was achieved through a variety of means. One was to task each level of management down to the individual operating unit with specific overtime reduction goals. Another was to promote a greater awareness among field managers of the cost of overtime as opposed to straight time, particularly in the time since the penalty overtime provision in the most recent labor contracts took effect. The emphasis all the while was on "back to basics" in managing resources more efficiently and managers and supervisors in the field have been responsive to this call. Where the need was evident, hiring additional employees was recognized as the prudent solution. The postal workforce now numbers 746,000 paid employees, up 44,000 over the past twelve months. Of the number newly hired, 34,000 are permanent career employees while 10,000 are temporary or casual employees.

Since mail volume is the primary determinant of personnel requirements, our hiring plans are heavily contingent upon projected volume growth. This growth in turn is closely linked to the state of the economy. As did many of the nation's leading economists, the Postal Service underestimated the speed of the economic recovery over the past few years. We are fully satisfied that our methodology for estimating short and long term employee complement requirements--involving computer modeling at local installations--is adequate to the extent economic and related external influences are predictable.

- Q. Your financial report for the first half of the postal fiscal year (through AP 7) attributes \$54 million in cost overruns to increased air transportation costs brought about by the CAB sunset. What is the current cost per pound to the Postal Service for air transportation and by how much does this cost exceed your original projections? Do you anticipate a decrease in air transportation costs and, if so, when? If not, how will this unanticipated cost overrun be offset in the future?
- A. With the procedures implemented following the "sunset" of the Civil Aeronautics Board, there is no uniform price per pound for the shipment of mail as there had been in the past. Now, the marketplace and competition determine what is a fair and reasonable price for air transportation. The Postal Service originally forecast an expenditure of \$588.9 million for air transportation

costs for Fiscal Year 1985. Based on the experience to date, the Service expects these costs to total \$721.3 million for the year or \$132.4 million over the original projection.

At present, the five postal regions are reviewing their transportation budgets for Fiscal Years 1985 and 1986 to determine where and how costs might be reined in. Two potentially fertile areas are the conversion of some air transportation to surface transportation where service can be maintained and the close monitoring of extra trips to ensure that they are essential to meeting service objectives. For the longer term, the Postal Service is reevaluating its contract solicitation methodology to determine what changes can be made to prompt lower bids in the 1987 round of contracts. In the interim, additional solicitations are being issued to reduce the mail volumes now moving under higher cost system contracts and space-available rates are being introduced into system contracts to achieve additional savings.

- Q. There have been recent reports that you are not happy with the Postal Service's top management and that you believe senior management is ineffective because there are too many people doing the same thing and there is not enough accountability. How are you addressing the problems you perceive with the Postal Service's senior management?

- A. I am not displeased with senior management in the Postal Service inasmuch as their commitment to this Service is strong and commendable. I am, however, interested in having the senior staff take the initiative to assess both what we do here at Headquarters and why we do it, and to determine if these activities can best be done at the Regional or field level or, if indeed, some activities need to be done at all. I expect this type of assessment to occur at all levels of the Postal Service down to the Management Sectional Center level. This may impact staffing mixes and it will, I expect, certainly impact the decision-making levels for many matters. Periodic organizational assessment, across the board, must occur for institutions to continue to grow and improve.

Accountability is being enhanced through a quarterly review process which the Deputy Postmaster General and I instituted in Postal Quarter II. This process is being disseminated for all managers throughout the Service over the next year. Communications, understanding, objectives, and results will all be strengthened through this effort.

Q. In recent speeches, you have chided management for not being sensitive enough to non-supervisory employees. Each year, thousands of grievances are filed by employees and we have received numerous reports of what appear to be unnecessary disciplinary actions. This all tells me that there are problems in the workroom; that employees feel their needs and views are not being heard and that they are not a respected part of the Postal Service team. Don't these conditions lead to low morale and contribute to low productivity? What specific actions will you take to improve the relationship between labor and management and to include non-supervisory employees in overall efforts to improve the agency's performance?

A. The Postal Service conducted a study of discipline within the Service to determine the types and causes of discipline which indicated that 65 percent of all discipline was attendance related. Accordingly, the Service has directed its efforts toward improving attendance through positive incentives. A number of programs have been implemented in the Southern Region to test these methods. In addition, a new computerized discipline tracking system has been implemented to provide an extensive data base from which management can identify and analyze trends regarding employee discipline. By mutual agreement, the APWU, NALC and USPS have formed a task force on discipline, to be chaired by a neutral party, which will study alternate means of correcting employee misconduct.

With respect to including non-supervisory personnel in the overall efforts to improve the Service's

performance, Postal Service management is making a concerted effort through Employee Involvement/Quality of WorkLife (EI/QWL) processes to change the labor-management climate from adversarial/confrontational to one that is cooperative/collaborative. This effort was initiated in 1982, when Postal Service management invited the four exclusive Postal Service unions (American Postal Workers, National Association of Letter Carriers, National Post Office Mail Handlers, and National Rural Letter Carriers) to participate as equal partners in joint EI/QWL processes. Three of these unions currently participate in such processes. The American Postal Workers Union has not as yet accepted the invitation to participate. Although we have made good progress with the three unions, all of the parties recognize that it will take years for this participative process to be diffused throughout the Postal Service. In addition to the joint processes with the three unions, there are simultaneous efforts within the management ranks that complement the joint efforts but are less structured.

Attached are copies of documents which will convey a feel for why the Postal Service elected to pursue EI/QWL, how some of the processes are structured, and the status as of March 31, 1985.

- Q. I am concerned about the apparent lack of proper controls over contracting by the Postal Service, particularly in terms of cost. For example, I understand that the Inspection Service is investigating a payment of over \$7 million to E-Systems of Dallas, a company under contract to produce M-36 facer-cancellers. The payment was made without approval from the Board of Governors and despite the fact that E-Systems had not met its delivery obligations under the contract. In light of the agency's poor financial situation, how will you ensure that the Postal Service monitors performance and payments under its contracts more closely? Also, what is the status of the investigation into the E-Systems contract?
- A. The Inspection Service audited the procurement of the M-36 Facer-Canceller as part of a national audit of the Procurement and Supply Department. The audit was conducted in six separate segments and included a review of the Contract Award/Administration and Payment Process. During this segment, 123 separate procurements were reviewed from contract award through final payment to determine whether they were properly handled and accounted for. The M-36 was one of the procurements sampled.
- The M-36 contract was a firm, fixed-price contract which allowed for progress payments of 80 percent, with the final 20 percent payable upon the acceptance of the equipment. The progress payments were subject to audit by the Defense Contract Audit Agency prior to payment by the U.S. Postal Service Postal Data Center. The final 20 percent payment was made after the acceptance of

every contract item. Thus, Postal Service controls required the contractor to meet its delivery obligations prior to being paid.

The contractor asserted a claim of \$11.2 million for equitable adjustments under the terms and conditions of the contract because of defective drawings and changes (52 change orders, 900 modifications) for which the Postal Service was responsible. After months of study, analysis, and negotiations, a settlement of \$7.5 million was paid. Postal Inspectors who conducted the audit raised questions concerning the cost overruns and whether the Board of Governors was aware of the additional spending, whether the Board approved the final settlement, and the issuance of the final settlement check and the accounting for the expenditure.

These issues were all addressed with the former Postmaster General and Deputy Postmaster General, William Bolger and Jim Finch, respectively, and the current Secretary of the Board of Governors David Harris. On May 31, 1984, Mr. Bolger provided the Board with a memorandum covering capital investment projects for the period from Fiscal Year 1982 through Fiscal Year 1984 which included the final payment to E-Systems made in June 1982. There was no evidence that the Board had

been officially notified prior to May 31, 1984.

The information developed during the audit and the action taken by management indicated further attention to the M-36 procurement was not warranted and the Inspectors continued on their review of the overall procurement function. On March 4, 1985, at the closed session of the Board of Governors, Chief Inspector Charles R. Clauson and Assistant Chief Inspector Thomas J. Koerber briefed the full Board on the attention given the M-36 issue and the fact that no further attention was contemplated. The briefing was in conjunction with the annual briefing of the Board on the Internal Audit Program.

With regard to actions taken or to be taken to monitor contract performance and payments more closely, postal management has implemented several control procedures. The Board of Governors will be notified in advance of payment of any claim that is \$5 million or more or of any claim which, if allowed, would raise the total project cost over the amount of money originally approved by the Board. In addition, management has initiated release/loan agreements with potential vendors to test prototype equipment on site prior to negotiating contracts under standard list procedures and will now

employ a system development life cycle approach (STRADIS) to control major projects from design through implementation. Finally, the Postal Service has established a Technology Planning Committee consisting of officers of the Postal Service to provide oversight of new technology development.

The Inspection Service conducts several different types of reviews which directly support management's efforts to properly control the contracting function. One recent change involved the establishment of a Developmental Audit Program. In conducting developmental audits, the Inspection Service monitors the design of new systems, including requirement statements, pre-award testing of equipment (prototype), and acceptance testing (production model), together with operational performance and reliability evaluations. Also, self-initiated commodity reviews are conducted covering the procurement of specific items or services. Operational audits which cover some aspect of procurement/contracting are conducted periodically. The most recent example is the comprehensive review of the Procurement and Supply Department mentioned above currently in its final stages. That review will be reported in six volumes and will contain a number of recommended improvements to strengthen internal controls and enhance the quality assurance program on procurement activities.

JUN 26 1985

Honorable Frank McCleskey
Chairman, Subcommittee on Postal
Personnel and Modernization
Committee on Post Office and Civil Service
House of Representatives
Washington, D.C. 20515

Dear Frank:

At the June 11 oversight hearing before your and Chairman Leland's postal subcommittees, both you and Congressman Borton asked for specific information on the steps being taken by postal management to avoid the deficit currently projected for Fiscal Year 1985.

As I mentioned in my prepared testimony on June 11, a number of substantial changes within and without the Postal Service took place in late 1984 which had a deleterious effect on service for most classes of mail, particularly Express Mail. Foremost among these were changes in over one half of the existing airline schedules, the loss of night freighter service, and the shift of all second-class mail to the preferential mail stream. The former necessitated the renegotiation of contracts first negotiated only a few months earlier and delays in transportation due to the loss of lift capacity at the times required by the Postal Service. The latter severely increased the manual handling of mail at general mail facilities, occasioning delays and increased costs.

The Deputy Postmaster General, who is directly responsible for field operations, quickly moved to set things right when these unfavorable service trends became apparent, establishing a task force to develop and implement action plans. Among the first corrective measures taken was securing night freighter service among ten hub cities for Express Mail service. Shortly after the April 1 start up of this freighter service, Express Mail began to improve, to the point where it now surpasses that offered during

the same period last year. With respect to letter mail service, specific regional service targets were set for all twelve categories of incoming and outgoing mail, not just the three categories on which the Postal Service had previously concentrated its attention, and computer software was made available to track progress toward these goals. As with Express Mail, letter mail service now exceeds the service afforded during the same period last year. Parcel post service has been dramatically improved through the nationwide implementation of a parcel post program successfully pioneered in the Southern Region. Audits of the one hundred largest postal facilities by the Postal Inspection Service have produced numerous suggestions for improvements and field managers have been given a free hand to promptly take corrective action. Monitoring systems at all levels of management have been established and daily or bi-weekly coordination among Headquarters and field managers is the order of the day.

On the financial side, additional airline contracting efforts and costs associated with moving all second class mail to the surface preferential system took a larger than expected bite out of the postal budget, and the necessary preoccupation with service was not without its own effects. These essential efforts placed a strain on postal costs and caused the Postal Service to revise its annual financial projection to reflect a possible loss of \$500 million. In response to this poor financial picture, senior management set a goal of breaking even by the end of the fiscal year. To achieve the cost reductions necessary to achieve this goal, field managers were ordered to recalculate the work hours necessary to complete the fiscal year, to set weekly targets, and to maintain work hour controls by work unit. Also of paramount importance was concerted attention to reducing overtime from its unacceptably high levels, a goal which has almost been achieved. Overtime use has been reduced from 10.2% in January to 6.3% at present for a savings of over \$30 million. Field installations were also asked to review each non-personnel item in their budgets for potential savings and were reminded of the information and information systems available to assist them with staffing and work hour management decisions. Regions are assigning specific periodic spending goals to better reach the required measure of restraint. Headquarters departments have not been immune from these cost-cutting efforts. They too have been instructed to review their budgets, to eliminate expenditures not regarded as critical, and to set reduced spending targets. This review has resulted in savings of slightly more than \$74 million.

Several other activities have been undertaken to ensure that the Postal Service puts its fiscal house in order. All meetings and conferences not deemed critical to the movement of the mail and all nonessential travel have been cancelled for the remainder of the year and temporary details of employees to other facilities have been suspended in many offices. Contracts for air transportation and air contracting procedures have been reviewed to identify potential cost savings, with some current success, and all consulting contracts have been reviewed and, where appropriate, cancelled, deferred, or reduced in scope. Repairs and alterations in situations not constituting emergencies have been deferred and procurements not essential to mail movement have been cancelled or curtailed.

As you can see, Mr. Chairman, the Postal Service is serious about exercising the institutional discipline necessary to offer its customers first rate service and control its costs. The actions which management has taken are carefully calculated to strike a balance between service and the bottom line and not to sacrifice one at the expense of the other.

Sincerely,

(signed) Paul M. Carlin

Paul M. Carlin

BLANK PAGE

OVERSIGHT ON OPERATION OF U.S. POSTAL SERVICE

TUESDAY, JULY 9, 1985

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION AND THE SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE,

Washington, DC.

The subcommittees met, pursuant to call, at 10:08 a.m., in room 311, Cannon House Office Building, Hon. Frank McCloskey (chairman of the Subcommittee on Postal Personnel and Modernization) presiding.

Mr. McCloskey. It's about 8 minutes after, and hopefully Mr. Leland, our cochairman for these two subcommittees, will be here soon, so I think we should start.

On behalf of the Subcommittee on Postal Personnel and Modernization and the Subcommittee on Postal Operations and Services, I would like to welcome the members of the Board of Governors to the oversight hearing on the operations and status of the U.S. Postal Service. This is the second day of our congressional oversight hearings which are mandated by the Postal Reorganization Act of 1970.

The Board of Governors is charged with setting Postal Service policy, conducting long-range planning, reviewing agency practices, and directing and controlling expenditures. Although the board does not make day-to-day decisions for Postal Service operations, it directs and controls the exercise of power by the agency. Therefore, I believe that the board must accept an equal share of the responsibility for dealing with the current fiscal crisis of the Postal Service.

In his testimony last month before our first joint oversight hearing, Postmaster General Carlin was very frank about the poor financial situation of the Postal Service and he discussed his plans for correcting the deficit problem and improving performance.

This morning, I hope we will hear concrete plans from the members of the Board on how the agency's financial status can be improved on both a short- and a long-term basis. I'm also interested in hearing their ideas on how the Postal Service can continue to meet the changing needs of the mailing public well into the future.

First and foremost, the Board of Governors is responsible for representing the interests of the public at large. To me, this means that the Board must take whatever steps are necessary to ensure that citizens in urban and rural areas, businesses, charitable organizations, public service groups, and every other postal customer

receives efficient service and timely delivery at reasonable rates. I look forward to hearing the testimony of Chairman McKean on how this will be accomplished.

Our ranking minority member, Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman.

I'm pleased to be here today to receive the testimony of the Postal Service Board of Governors, and I join with you in welcoming those members of the Board who are here today to testify.

We in the Congress and on this subcommittee especially face many difficult decisions and issues that can directly affect the Postal Service. I'm looking forward to the testimony being presented today and to the opportunity to question the Board on a number of issues.

As I mentioned earlier, I consider it a major responsibility of this committee to ensure that the most efficient and effective decision-making processes are used. The Postal Service must be squeaky clean in everything it does. Otherwise, it contributes to the arguments set forth by those in favor of dismantling the Postal Service and turning over much of its operations to the private sector.

I oppose any such move, and, again, that's why I consider oversight of the Postal Service a major issue. Revenue foregone, a projected \$500 million Postal Service fiscal year 1985 deficit, the electronic mail system, and the contracting of airline delivery are all areas this subcommittee is investigating and are areas where concerns have arisen.

I know that our hearing will contribute to improved decision-making so that the Postal Service can continue its tradition of excellent service for individuals and businesses alike.

As we consider these problems, I ask, too, that we not forget the miracle of mail delivery in this country. Despite some of the problems we have identified in the operation of the Postal Service, it's a tribute to the Service and to postal employees nationwide that 90 percent of all first-class mail is delivered anywhere in the country within 24 hours. There is no other country that can boast such a performance record.

Mr. Chairman, I join you in welcoming the members of the Board of Governors, and I look forward to their testimony.

Mr. McCLOSKEY. Thank you, Mr. Horton, for a very excellent statement.

We will now hear from John R. McKean, Chairman of the Board of Governors.

Welcome, Mr. McKean.

STATEMENT OF JOHN R. McKEAN, CHAIRMAN, U.S. POSTAL SERVICE BOARD OF GOVERNORS, ACCOMPANIED BY GEORGE W. CAMP, VICE CHAIRMAN; JOHN L. RYAN, GOVERNOR; PETER E. VOSS, GOVERNOR; RUTH O. PETERS, GOVERNOR; WILLIAM J. SULLIVAN, GOVERNOR; AND JOHN N. GRIESEMER, GOVERNOR

Mr. McKEAN. Thank you, Mr. Chairman.

I have an opening statement that I would like to read.

I appreciate the opportunity to appear before you today to give testimony in connection with this oversight hearing.

Accompanying me today are all of the other Governors of the U.S. Postal Service. With the chairman's permission, I would like to introduce you to them at the conclusion of my prepared statement.

The Governors recognize the important responsibility that Congress has entrusted to us under the Postal Reorganization Act. We represent the public interest generally in providing policy guidance to those who manage this basic and fundamental service.

As you know, we are part-time officials of the Postal Service. We do not, and cannot, supervise its day-to-day operations, but each of us contributes an enormous amount of time and effort to our responsibilities as Board members, much more than just the 2 days each month at which we hold our formal meetings. Every one of us spends many additional hours each month attending committee meetings, analyzing reports on virtually every significant aspect of postal operations, and following up on issues that arise at our regular meetings. Our one and only objective is to see that this institution run as well as it possibly can be, free of any partisan political influence and in the best interests of our customers, our employees, and the American people.

Let me comment briefly on some of the significant developments that have occurred since I last appeared before you nearly 10 months ago.

First, we have a new management team in place. After a year-long and very thorough search that extended to dozens of inside and outside candidates, we settled on a career postal employee, Paul N. Carlin, to succeed Bill Bolger as Postmaster General.

Paul had an outstanding record managing the Postal Service's biggest region, and he knows the institution well. We were impressed by his strong commitment to equal opportunities for postal employees and his desire to build an effective management team.

One of the principal members of that team is Jackie Strange, our new Deputy Postmaster General, and she, by that title, becomes the chief operating officer of the institution. She is a career postal employee. She previously served with great distinction as a regional Postmaster General for the southern region.

Second, on February 17 we implemented new postal rates. None of us enjoys a rate increase, and we deferred it as long as we prudently could. The 10-percent increase in the price of the first-class stamp came more than 3 years after the last rate increase, and it was well below the general inflation rate over that time period.

We place a great deal of importance on rate stability, because we recognize how important it is to our customers. We totally reject the view that our statutory monopoly over letter mail gives us a license to raise prices without limit. On the contrary, we start from the premise that there is no quicker way to destroy this institution than to raise our prices to the point where our customers have no practical choice but to find alternative ways to communicate their messages.

We fully intend to provide the longest possible period of rate stability, and we intend to provide it by working on the expense side of our income statement and not the revenue side.

Third, last fall we concluded our third consecutive year of operations in the black. What that means is that the Postal Service has

broken even, which is exactly what the law requires, over the last 7 years.

Regrettably, I have to report that we are deeply disappointed in operating results for the current fiscal year. The Postal Service has been running well behind its plan and is likely to finish the year with a sizable loss. The Postmaster General reports that it could be as much as \$500 million. We are carefully monitoring the remedial steps that he and his management team are implementing.

The disappointing financial results are apparently attributable to a number of factors, including overly optimistic volume projections, the CAB sunset, and overruns in work-hour usage. Postal management has made considerable progress reducing overtime hours, and we will continue to watch the situation closely as the other problems are attacked.

Ahead, we see a number of major challenges. First and foremost is the urgent task of getting the financial performance back on track. That's going to require hard work on the part of all postal employees, greater attention to costs, and continued efforts to make the Postal Service operate as efficiently as the Nation's best run private businesses.

If the disappointing financial results cannot be turned around, we have no choice but to consider a rate increase earlier than any of us had hoped or expected. I can assure you, however, that we have no present plans for a new rate case. We will not even consider that option unless and until we are convinced that the red ink cannot be stopped even with a far more drastic program of cost containment and reduction than management has implemented to date.

We also remain extremely concerned about service performance. The Postmaster General has taken a number of steps to raise our service performance levels, and we will continue to pay careful attention to this area.

The ZIP+4 Program remains a subject of great importance to the board. Our technology and development committee, chaired by Governor Peters, has done excellent work identifying the strengths and weaknesses of the present approach and considering where we go from here.

Because this program promises vitally important cost savings and improvements in mail processing, we are determined to do everything possible to make it a success. I can tell you, Mr. Chairman, Congressman Horton, that Governor Peters reports to me that ZIP+4 may very well be the future of the Postal Service.

At this point, Mr. Chairman and members of the subcommittees, let me depart from my prepared remarks to recognize publicly the absolutely outstanding contribution that the technology and development committee, and particularly its chairman, has made in connection with ZIP+4.

Thanks to the tireless efforts of Governor Peters, the Postal Service is going to do one of the hardest things that a Government agency ever has to do, and that's to make a midcourse directional change. We are changing our course in midstream. Management is now prepared to move decisively toward a multiline approach.

This shift promises extraordinary savings for all mailers, and Governor Peters deserves the lion's share of the credit. I am sin-

gling her out for credit here, because I do not want this exceptional contribution to go unrecognized and because I want the committee to recognize that we function with our own committee structure. We depend upon the members of the committee to report to the full board, and this is an example of effective use of committee work.

Let me also note, Mr. Chairman, that the board remains deeply committed to the principle of equal employment opportunity in hiring and promotion at the Postal Service. Postmaster General Carlin has taken vigorous and effective action in this area, and we applaud and stand behind his efforts.

As I noted earlier, Paul's strong record in the EEO area was a significant factor in our decision to name him as Postmaster General. We will continue to give Paul our full support on these initiatives, and we will do our part to ensure continued progress in this vitally important area.

Finally, we are watching closely the revenue forgone issue that is now before the Congress. Shortly after the last board meeting, I issued a statement on this issue. The substance of that statement is summarized in the prepared remarks that I have submitted for this morning's hearing.

At this point, I would like to introduce the six other Governors of the Postal Service that are appearing with me here today. George Camp, from Georgia, is our vice chairman. Also present are William Sullivan of Maine, Peter Voss of Ohio, John Ryan of Indiana, Ruth Peters of Virginia, and John Griesemer, our newest Board member, from Missouri.

The very fact that every one of the Governors is present here today should give you some indication of the importance we place on these hearings and our desire to cooperate fully with you as you discharge your oversight responsibilities.

Mr. Chairman, Congressman Horton, I have before you, this oversight committee, on a number of other occasions, and I have appeared singly. Fortified with my colleagues today, I feel almost as if I have a veritable Spanish Armada with me. I trust that my flotilla will not meet a similar fate.

Thank you, Mr. Chairman. That concludes the prepared statement. We welcome your questions.

Mr. McCloskey. Mr. McKeon, I appreciate your very comprehensive statement.

Obviously, our main concern this year has to be the terrible deficit problem we are facing. Medium estimates on it have hit \$500 million. I understand as of June of this year, we are almost \$300 million down, which means in order to come out in the black at the end of all this and not only in the last half of the year, you have to not only break even but you are going to have to come out several hundreds of millions of dollars ahead.

There are, quite frankly, no specifics in your statement. I've had the advantage of hours of conversation on this matter with Mr. Carlin, but there are no specifics in your statement as to how this will be accomplished.

Could you specifically, first, tell us how that will be done, and then, second, even though there are no specifics in your statement, you somewhat rapidly get to the possibility that there is a probab-

ity of a rate increase. So could you talk to us specifically about finances?

Mr. McKEAN. Let me, I hope, clear the air with respect to the rate increase. The deficit that is projected, to which I will address my remarks subsequently, is at or around \$500 million. That fact, and that fact alone, would not cause us to consider the filing of a rate case.

The other part of your question relates to the economies that have been effected, and perhaps I should attempt at least to give you some background and place that in perspective.

The expenses of the regions which would be, I suppose, in a normal enterprise, considered to be the operating expenses, as opposed to some more overhead type expenses, totaled \$18,388 million in the accounting period 9, which ended on June 7.

In order for a \$500 million deficit to have occurred, it would require only a 3-percent variation from that kind of a budget. In other words, the numbers are large in terms of the portfolio of expenses, and the revenue is also large.

What this means is that \$500 million is a lot of money, and I'm not attempting to tell you that it isn't a lot of money, but it is in the context of an operation of ours what would constitute an operating ratio of about 102 percent.

We are not apologizing for that. We are distressed by it. It is the first year of a rate cycle, and we should have done better. We think, if you ask us, we can attribute it to specific aberrations, but, more particularly, your question seems to ask, what are we planning to do about it, and I hope that I'm able to answer that question by the following.

We have instituted an ad hoc committee on service performance. We have noted that there has been an increase in the work hours. We think this is a problem, and since labor constitutes some 83 percent of our operating budget, we think that is what we have to look at first.

My vice chairman, Governor Camp, has worked closely with Deputy Postmaster General Strange to begin to assist in the control of their costs. This is an example of, we hope, what you will regard as an effective use of a committee.

Governor Camp has, just this month, asked that in 90 of the high volume offices throughout the United States, and of course with the cooperation of the regional postmasters general, that there be an audit conducted of what constitutes freight that's left on the dock—in other words, undelivered mail. We think that's a problem, and we think that the Board is going to participate in the solution to that problem.

The first aspect of the problem, and maybe one of the contributing factors to the cost, was that service deteriorated sharply at the beginning of the year. Our first and foremost concern is service performance. We specifically directed management to correct that problem—in order of priority, correct it first.

Next, the overtime problem. That was not only an extraordinary cost, but it can be debilitating to our work force. I'm pleased to report to you that, expressed as a percentage of work hours, 100 work hours, through accounting period 9, we have developed a

ratio which tells us how we are doing in terms of controlling overtime.

Work hours now are cumulatively through the year at 9.3 per 100 hours, but in the accounting period 9 itself, they are down to 6.2. This is a reversal of a trend, because at one time, this was at or approaching 11 percent. We are not satisfied with that, but this is one aspect of the cost picture.

Specifically now with regard to things that we have asked management to do to control the costs, I'm sorry that my answer is lengthy, but it's a compound question and a complex problem.

Mr. McCLOSKEY. Feel free, please.

Mr. McKEAN. Thank you, Mr. Chairman.

On June 22, the Postmaster General, Mr. Carlin, called a special meeting of senior managers, including the regional postmasters general, and hammered out a goal for reducing planned expenses for postal quarter four by \$400 million.

Following is a synopsis of the major management actions from that meeting, and I will attempt to quantify the elements of the \$400 million at the conclusion. Here are the actions:

Canceled all training at the management academy. We fill only the most essential vacancies at headquarters, and we eliminate overtime.

We eliminate the training course for new PCES executives. We terminate temporaries and most casual employees at headquarters.

We reduce consulting services. We reduce other supplies and services. We reduce travel. We reduce advertising for express mail, ZIP + 4, and philatelic programs.

We reduce training. We postpone or cancel management meetings. We reduce field overtime, and we slow down the hiring without adversely impacting service, because, I repeat, that's our primary, in order of chronology—that's our primary concern.

Finally, we reduce field overhead expenses.

The field was asked to reduce their expenses in postal quarter four by approximately \$282 million, and the headquarters organization by \$111 million. That's \$393 million, and the categories of expenses that would be reduced to arrive at those amounts are available in detail for submission to the committee.

We allowed them some latitude regarding the distribution of this goal by management sectional service and by accounting period. This is a very difficult short-term cost reduction goal for the U.S. Postal Service, but I can only say that we have attempted to participate in this matter in a way that a board should be expected to participate.

Mr. McCLOSKEY. Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman.

Governor McKean, the statement that you made on page 3, is very important and probably ought to be capitalized and placed in front of the Board every time you have a meeting.

You say:

On the contrary, we start from the premise that there is no quicker way to destroy this institution than to raise our prices to the point where we drive many of our customers to find alternative ways to communicate their messages. We fully intend to provide the longest possible period of rate stability, and we intend to pro-

vide it by working on the expense side of our income statements, not the revenue side.

I think that probably is the most important statement that you can make by way of policy. There's nothing worse than raising the cost of mailing, because, as you do, you drive customers away, and we've seen it happen over, and over, and over, and over again in other industries. The mail industry is no less susceptible to losing customers than any other service or any other business.

So I think your policy statement is a very important one, and this half a billion dollar deficit that you are facing right now, is a very serious problem I assume that the Board of Governors thinks the same way. Is that correct?

Mr. McKEAN. It certainly is, Congressman. I had hoped that I had conveyed that to you, and I certainly agree with your observation that the notion that our position with respect to letter mail gives us an untrammelled ability to raise rates whenever we feel is a notion that this board simply does not share.

Mr. HORTON. For your information, I've served on the Government Operations Committee for the 23 years that I've been in the Congress, that is an oversight committee and an investigative committee—the investigative arm of the Congress. Each committee is supposed to have, and does have, an oversight subcommittee, but they can't do the work that a full committee can do. Basically, that's the responsibility of the Government Operations Committee on the House side and the Governmental Affairs Committee on the Senate side.

In that role, I've worked closely with the GAO, and I've been deeply concerned about oversight and trying to make the Federal Government more efficient and more effective, looking at the economies and trying to make certain that the Government spends its dollar wisely and that the taxpayers' interests are protected. That's a very important function in the Congress.

Some years back, we were having some hearings oversighting the HEW at that time and found they only had four or five people in that agency responsible for checking on waste, fraud, and abuse.

So Mr. Brooks, Mr. Fountain, and I introduced the first bill to create an inspector general, and that bill did pass the Congress with the administration dug in deeply, its heels entrenched, and we pulled them over the cliff and got the bill signed and an IG placed in the HEW—an IG nominated by the President, confirmed by the Senate, part of the agency.

That IG, who happened to be a man by the name of Tom Morris out of GAO, did such a tremendous job that billions of dollars were very quickly saved.

Then following that, we passed legislation sponsored by Mr. Brooks and myself to put IG's in other agencies, and ultimately we put one in the Department of Defense, and a lot has been going on in the last couple of years with that IG digging up waste, fraud, and abuse. It has been making the headlines almost every day.

As you read, you will find some little paragraph says, "The IG said * * *," and that's how all this information is being disclosed.

I have talked with members of my committee in Government Operations, and then I have talked also with Mr. Leland, with regard to the possibility of an inspector general for the Postal Service.

Now, that would not take any responsibility away from the Board of Governors. It would give you an added tool that you don't now have. It would give you a person who would have authority to ferret out waste, fraud, and abuse, who would have the opportunity to look at inefficiencies and economies and make recommendations.

As a matter of fact, the way we've got those agencies structured now, that IG is responsible for making reports to the Congress to point out where these inefficiencies and where waste, and fraud, and abuse are, and they are not the officer that has to pursue the enforcement. In other words, it would be a tool for the Board of Governors.

I don't know whether you have had a chance to think about this or not, but Mr. Leland and I have introduced that legislation. We plan to get sponsors, and I hope, and I expect, we will be having some hearings on that legislation. Hopefully we can get that legislation passed through the House and the Senate and signed into law. I think it would be a very helpful oversight arm that would assist the Board of Governors.

Now, I have not personally talked to you, and perhaps you are not familiar with that legislation, but let me ask you, could you comment on that at this point and give me your thoughts with regard to that type of legislation?

Mr. McKEAN. My reaction to that, Congressman, is that it would be necessary to review the legislation specifically to see what it entailed.

Mr. HORTON. I understand.

Mr. McKEAN. We wouldn't want it to be another line of authority within the organization that would have responsibility for the operation, but you seem to have indicated that that would not be the thrust.

With regard to any measure that helps us control costs in the U.S. Postal Service, it may very well be that this would be helpful in that regard.

I should point out to you, however, that, with regard to the ad hoc committee that is presently reviewing very carefully—Governor Camp here to my left—service performance, we use our Inspection Service to determine the status of various Postal Service activities as it presently stands. We have found that to be very effective.

Other than that, pending a review of the legislation, I have no other comment.

Mr. HORTON. As I pointed out, it has been very effective in other agencies, and I think that as a watchdog it would be a very helpful tool to the Board of Governors.

I recognize that each of you makes a sacrifice of time. You have got other employment, and this is a part-time job for each of you. I realize, too, part-time jobs almost get to be full-time jobs and probably are full-time jobs. You can't get involved without being willing to make the time available if you've got a problem, and you've got a problem now with a half-billion-dollar deficit facing you. This ad hoc committee that you have appointed—Mr. Camp, let's hear from you. What are you planning to do? You are the chairman of that ad hoc committee on service performance?

Mr. CAMP. Yes, sir.

Mr. HORTON. What are you planning to do to check on this performance problem?

Mr. CAMP. Well, Mr. Horton, at the time I was appointed chairman of this committee by Mr. McKean, I thought about it for a couple of weeks to decide which approach to take, and, after talking to the Postmaster General and thinking it through, we decided I would work with the Deputy Postmaster General in trying to turn service around and reduce cost at the same time, which is awful hard to do.

Anyway, we had the inspectors—which is our arm, I guess—to go in and check out the service, to check the big offices. As you know, that's where the money is spent. We checked several of them, and we did find quite a few problems.

The inspectors did ask for reports from the SCF managers and the regional postmasters general on what was going to be done to correct those problems. This was finished probably 3 or 4 weeks ago.

Beginning this week, in the 80 largest offices, the inspectors are going to check every morning for a delayed mail report and how much, and this will be submitted to the Deputy Postmaster General. I don't know whether it will be on a weekly basis or a monthly basis, but it will be turned over to me to report to this committee on a monthly basis.

Mr. Horton, what that will do—and this happened to me back in the 1960's—I think Fred Belan, whom you know really well and started it probably—the inspectors came in and checked my office to see if I had delayed mail every morning back when we were having some problems.

Being an SCF manager of a large office, I did not want the Postmaster General of the United States to know I had delayed mail, and I would move it, and they didn't catch me with any delayed mail, and I think this is a good system.

If you have a dedicated postmaster, a guy that loves the Postal Service and wants to do his job, he is not going to get caught with any delayed mail in his office in the mornings. I think this system will help us. It might cost us a little money, but it is going to help the service. I think it will get the opinion out there that this administration is determined to give service to the American public, and this is as it should be.

Mr. HORTON. Who else is on your committee?

Mr. CAMP. No one but I.

Mr. HORTON. How many staff people do you have?

Mr. CAMP. I don't need any staff people. I know the Postal Service pretty well, and I think that's why the chairman appointed me.

If I need help, I can call Mr. Harris, or I can call Ms. Strange. I would rather operate through Ms. Strange and not get involved myself, because I don't think it would be appropriate for me as a governor to go out and check on these offices.

I've always had good relations with the Postal Inspection Service, and I have full confidence in them and do a good job.

Mr. HORTON. How often do you meet with her?

Mr. CAMP. I talk to her weekly, several times.

Mr. HORTON. Have you personally visited these larger offices?

Mr. CAMP. I have visited two or three but not for the purpose of—

Mr. HORTON. You are depending on oral or written reports?

Mr. CAMP. Written reports, sir.

Mr. HORTON. Written reports?

Mr. CAMP. Yes, sir.

Mr. HORTON. Then you make that available to the Board of Governors?

Mr. CAMP. To the chairman, and whatever he wants to do with it; yes, sir.

Mr. HORTON. I have some more questions, Mr. Chairman. Perhaps you might want to deal with another line.

Mr. McKEAN. Congressman, may I make an observation with regard to that?

Mr. HORTON. Yes.

Mr. McKEAN. We have found the Inspection Service to be scrupulously independent of management in the sense that, when they are asked to do a job of investigation, they do the job. It is in that vein that we feel that they have been helpful. We feel their function is so broad that it might at times get diffused a bit so it doesn't focus on the areas that would be of primary concern to us.

What Governor Camp is describing is what would be referred to, I guess in private industry, as a kind of operational audit, and obviously Governor Camp is treading the line between what a board should be expected to do and what an actual day-to-day operating officer should do.

Mr. HORTON. I understand, but I think what he is doing as a member of an ad hoc committee of one, in a sense, he is doing an oversight function for the Board of Governors, so the Board of Governors can be better informed with regard to service performance. That's the way I understand what is occurring.

Mr. McKEAN. Absolutely.

Mr. HORTON. So I don't look on him as an operating officer. He is not doing that, but he is performing, in a sense, a function like I have envisioned for an inspector general.

Mr. McKEAN. Exactly.

Mr. HORTON. Which would be helpful to your board, as I see it.

Yes, Mr. Chairman. Go ahead.

Mr. McCLOSKEY. Thank you, Mr. Horton.

Mr. McKEAN, and anyone else who cares to comment, do you anticipate a rate increase this year? Yes, or no?

Mr. McKEAN. The answer to that is "No."

Mr. McCLOSKEY. Can you say with some certainty then this will be a successful cost-savings program, that there will be no rate increase? Those are really strong words.

Mr. McKEAN. I believe I can say that there will be no rate increase this year that will be placed into effect whether or not the cost program is effective.

Mr. McCLOSKEY. Maybe I wasn't quite precise enough, but I'm referring to a rate increase to be filed for this year.

Mr. McKEAN. We have no plans to file for a rate increase either.

I know that it is common for people who function as chairmen and members of committees in Congress in Washington to take prepared statements and receive them and read them into the

record. I believe what I said to you. We are going to work hard and diligently to reduce costs. We are going to hold management's feet to the fire.

This is the first year of a rate cycle, and there's no excuse for a rate case to be required this early.

Mr. McCLOSKEY. Do you see any possibility of opening up your union contract?

Mr. McKEAN. We have no present intentions of doing that, and my personal opinion is that it would be disruptive to our labor force. It is a possibility that any responsible executive or director of a corporation would have to keep as one of the ranges of options. We have no present intention to exercise that.

Mr. McCLOSKEY. You wouldn't absolutely rule it out, though, given your priority not to have a rate increase?

Mr. McKEAN. Mr. Chairman, I have given you the best answer I can.

Mr. McCLOSKEY. How about closing of small post offices? There has been a lot of talk, and I understand there are no plans to do that, but I'd appreciate a statement on the record.

Mr. McKEAN. I'm going to answer it categorically that we have no present plans to do that, but I've been trying to convince you that we are an active board and that I rely upon my members. I wonder if I might ask Governor Ryan, with your indulgence, to give you his opinions with regard to that particular subject?

Mr. McCLOSKEY. Surely.

Mr. RYAN. If you don't mind, I'll back up a hair or two on the rate increase. Because I served on the Postal Rate Commission, I feel like I'm comfortable with that subject.

Like any board of directors, the Board of Governors looks at the financial progress, or lack of progress, if you will, of the institution on a periodic monthly basis, and the elements in the Postal Service change, and as has happened in the first part of this year, they change very rapidly.

One of the features of the Postal Service which is always kind of astounding to me is what an enormous amount of money is involved in what can be a very small change in expectations. The \$500 million which we have been talking about as the estimated deficit—with all things extrapolated deficit, let's call it—for this year represents a very minor error in forecasting, well within the limits of what would be accepted as acceptable forecasting in industry, at least as I experienced it.

This is what we did with respect to the filing of the last rate case. We monitored the situation until a majority of the board felt that it was necessary to take action for the well-being of the institution, and I think that would be precisely what would be done in these instances.

In other words, I guess what I'm saying is, it's awfully difficult to forecast what is going to happen on a month-to-month basis in terms of being precise enough to make a commitment.

So I don't disagree with the chairman, but that's perhaps a modification of what he is saying.

As far as the smaller post offices are concerned, I don't think this board has ever involved itself, at least as far as I know, in the closing of small post offices.

There is a procedure whereby, as I understand it—a process that the Postal Service goes through which enables them to close highly inefficient offices or offices which, in their opinion, are not required for the continuation of the service to the people in the area.

I presume, although I don't know that that program would go forward, from a practical point of view, it wouldn't amount to a hill of beans to close small post offices for the purpose of saving money. A very small amount that is spent in the process of the Postal Service is spent on the smaller post offices.

Governor Camp mentioned that it is the big post offices where the action is, and that's where the savings can be arrived at. So certainly that would not be part of any ongoing program with regard to cost control.

Mr. McCLOSKEY. Mr. Horton.

Mr. HORTON. Mr. Chairman, I just wanted to follow up on your question.

I think this is an important matter, this matter of closing small post offices. The Grace Commission made recommendations, and I'm sure each of you is familiar with those recommendations. As a matter of fact, as a Member of Congress and as a Member representing my district, I'm getting letters from people from Rose and North Rose in my district and other little towns. They have a list of small post offices that are going to be closed, and I got a letter this morning. I get in my office early in the morning, and I open the mail sometimes.

I opened the mail this morning, and there's a letter from a lady in California. Out there, they don't want to close this little post office, and she's got a list of all the little post offices that are proposed to be closed in California.

Now, this is serious. People are very much concerned about that. I mean I'm familiar with it because Rose—nobody out there knows where Rose, NY, is, but I know, and those people who live there know. In Putneyville, they don't want their little post offices closed.

The Grace Commission is going around buying these big ads and making it appear that all you've got to do is close all these small post offices and the problem will all be solved.

So I'm interested in finding out what the Board of Governors, individually, thinks about this subject of closing post offices.

Mr. McKean, as the chairman of the Board, perhaps you might start off. I'd like to hear from each one of you. You don't have to go into a lot of explanation. I mean, if you want to hedge, it's OK, but say yes or no, or maybe, or, "I haven't made up my mind." But I'd like to hear from each of you what your view is with regard to the Grace Commission recommendation of closing small post offices.

Mr. McKEAN. Unfortunately, Congressman, I've been in Washington now for 3 years, and I've learned a habit of language that kind of precludes yes, no, or maybe, but I think you can conclude from my remarks that I'm about to make that we have no present plans. I personally do not support the closing of small post offices.

We regard each Postal Service facility as an integral part of the whole universal mail delivery system, and the measurement of the revenue that each postal facility generates is not an accurate indication of how it fits into the whole network.

I personally have no present plans for that. I have no plans to support any idea that that would take place, and I don't think that's where our real cost containment program should be directed anyway.

Mr. HORTON. A beautiful statement.

Mr. McKEAN. Thank you.

Mr. HORTON. Mr. Voss, Mr. Camp, how about you?

Mr. CAMP. Well, I have no hesitancy at all to making the statement that I'm opposed to closing small post offices.

Mr. HORTON. Thank you very much.

Mr. CAMP. Now, there are exceptions, but very few.

Mr. HORTON. Mr. Voss.

Mr. Voss. I'll continue to make your day.

The private studies that I have seen conducted by one of the major universities indicates that in areas where small post offices are indeed closed unilaterally and not necessarily based on the deterioration of the economic condition of the area, and it's closed in that manner, it has shown that the community dies. I think that study is sufficient enough for us to pause for concern in that area.

The Grace Commission has its own opinion, as each individual Governor has here. That's their opinion, and I think they are looking at the gross dollars. They may not be looking at the gross income or the particular interest of the profile and the personality of the community and what it does. Whether they have evaluated that—I think their costs were somewhere around \$150 million, if I remember my figures correctly, that it would save.

It hasn't been shown to us conclusively by anybody, nor have we entertained in session any serious discussions on that, because I don't think, in our opinion, that that's a serious enough subject for discussion at this point as a matter of elimination.

Mr. HORTON. Thank you very much.

Mr. Griesemer.

Mr. GRIESEMER. Mr. Chairman, I've been on the Board 6 months. The subject of closing small post offices has never come up in any of our meetings.

Mr. HORTON. It just came up right now. I'm asking you a question.

Mr. GRIESEMER. Yes, sir, and what I am saying—

Mr. HORTON. I just want a yes or no.

Mr. GRIESEMER. What I am saying is that we have never even discussed this, but my personal opinion is that it would be foolish to close the small post offices. I do not believe that there is a savings there that the Grace Commission says, because the people of the United States must be served somehow, and if we are going to extend more rural carriers, or however we are going to serve the people out in our rural areas—and I'm one of them—they are going to be served somehow, and if you close the post offices, you are going to put in some other structure, and this Board has never considered closing any.

Mr. HORTON. Mr. Ryan.

Mr. RYAN. I'm glad you are giving me another shot at it.

I don't think the Board of Governors should make any policy with respect to closing small post offices. I think that closing or opening or maintaining small post offices is an operating matter

for the operating people in the Postal Service, and I think if we try and ride herd on every move that they make with respect to that sort of thing, we would be foolish in our performance and cause problems with respect to operations.

I have no personal animosity toward small post offices. I haven't even read the Grace report, so I have no idea what their recommendation is.

Mr. HORTON. Mr. Sullivan.

Mr. SULLIVAN. I concur with my colleague, Governor Ryan, in terms of individual case-by-case matters, as being properly a management responsibility.

I think any plan to close post offices on a large scale, such as the Grace Commission recommended, should clearly have the approval of the Board of Governors. I would not support such a recommendation.

Mr. HORTON. Thank you very much.

Ms. Peters, you are a real heavy hitter. You are kind of winding up the show here. I want to ask you some questions in a few minutes about your special role with this ZIP+4.

I'm very interested in what you have been doing there, and, based on what the Chairman of the Board has said, you have been doing an outstanding job. I want to congratulate you on what you have been doing because I would agree with the chairman when he says that that could really be the salvation of the Postal Service.

I'll get back to that in a minute, but would you like to address the subject of small post office closures?

Ms. PETERS. I certainly share your last statement regarding, however, the ZIP+4.

In regard to closing small post offices, I, like yourself, Congressman, have been opening my morning mail for 5 years when I was director of postmaster selection for the Postal Service. There was not a day that went by in that office that we did not get letters from small post offices that may be threatened to be closed or not threatened, whether they were going to be closed or not.

When a community loses its post office, no matter how big or small it is, its identity is gone. So, under no circumstances would I close any post office.

When we speak of identity, let's speak of a city that we all know about right close by. Let's take Rosslyn, VA. Rosslyn, VA, is not a community as such; it has no post office. It's Arlington, VA.

So the identity of a post office, no matter how big or how small a community is, is very important. So I would not close any post office, large or small.

Mr. HORTON. As a matter of fact, the only time that anybody ever heard about Rosslyn was when Mr. Carter was President. His wife had the same name. [Laughter.]

Ms. PETERS. Well, there are several hundred thousand people there but no post office.

Mr. HORTON. Mr. Chairman, I'll turn it back to you. I've got some more questions. In the meantime, I see my ranking member, Mr. Taylor, has arrived.

I also wanted to ask unanimous consent to put in the statement of Congressman Don Young. He closes his statement by saying that he is looking forward to joining the Board in Anchorage when they

have their next meeting, which will be next month. I'd like to ask unanimous consent to put his statement in the record at this point.

Mr. McCLOSKEY. Without objection.

[See p. 146.]

Mr. HORTON. I do have some other questions, but perhaps Mr. Taylor might.

Mr. McCLOSKEY. Mr. Taylor.

Mr. TAYLOR. Mr. Chairman, I apologize for being late. We were having a meeting in the Rules Committee at the same time.

I would like to welcome the Board of Governors before our committee here today and to express my appreciation for the work that you do.

I certainly share in the concern over small post offices. You know, we all recognize that the Postal Service is the oldest entity of our Federal Government. Benjamin Franklin was our first Postmaster General, and one of the stated missions of the U.S. Post Office Department at that time was to provide mail delivery service to every remote part of America, wherever it might be.

We have never lost sight of those goals or of that mission that was one of the first criteria of our Postal Service, and I certainly share the views of Mr. Horton and those that were stated here by Mr. Griesemer and Ms. Peters that we think that sometimes rural America is not important, but communication out in the hinterlands is just as important as it is other places.

When we look at the cost of operating the small post offices, it's true that a lot of times the gross revenue doesn't justify the cost of that post office, but when you look at some of the larger areas of this country, you find there are some cracks in the floor there, too, which are many times much more than what we have in the rural post offices that are so important to the rural areas of our country.

There's only one other thing that I'd like to touch on and get the views of the members of the board, and that is what your views are on maintaining the private express statutes.

Chairman McKean.

Mr. McKEAN. Congressman, as the chairman I'll start off by giving you my view with regard to that.

We have heard, of course, from individual members, and I think it's appropriate that you ask that question to individual members of the board. I'll tell you what my position is.

I don't want management hiding behind a monopoly to provide a service which is less than first rate, and I say to management it makes no sense at all for business people, like myself, to suggest that a monopoly be withdrawn because it provides the opportunity for us to serve the entire United States, it gives us a higher revenue base over which to spread our institutional costs.

So as a businessman I support the monopoly situation. Management has to be reminded that they have to earn it. There are spotty records of service performance. It's up to them to straighten it out. It isn't necessarily really important what this board thinks about the private express statutes, it's what our constituents think, and if service deteriorates to the point where the Postal Service isn't giving it, we think that kind of clamor will decide whether the statute remains.

As far as I'm concerned, I'm in support of a universal mail system, and I believe that management has to earn the monopoly.

I should say to you, Congressman, that I have addressed that subject in forums before management people, and they have received it very well. In other words, they want the challenge of continuing to have to earn it, and I think they are up to that challenge.

Mr. TAYLOR. Thank you.

Mr. Ryan.

Mr. RYAN. I'm the fox in the henhouse, so I might as well go ahead and be second.

I personally am for repeal of the private express statutes.

Mr. TAYLOR. You are for the repeal of the private express statutes?

Mr. RYAN. Yes.

Mr. TAYLOR. Do you believe that the repeal of the private express statutes might strike a blow at the universal Postal Service that we have today?

Mr. RYAN. Certainly, it would change it dramatically.

Mr. McCLOSKEY. Mr. Taylor, could I interrupt—

Mr. TAYLOR. Yes.

Mr. McCLOSKEY [continuing]. Since I think you are asking one of the most pertinent questions today.

Could you elaborate on that a little bit more, Mr. Ryan? I really appreciate Mr. Taylor asking, but doesn't that pose possible problems at a time of a \$500 million deficit?

Mr. RYAN. I expressed my personal opinion. My function on the Board of Governors is not to act as a spokesman for those who want to repeal the private express statutes, it's to try and make the Postal Service run as efficiently and as productively as possible, and that's what I spend my time doing. I'm not in here—even though I may be a fox in the henhouse, I'm not collecting chickens.

Mr. McCLOSKEY. So you are saying, as a matter of personal opinion, very detached from your official role, you are for repeal of the private express statutes, but you would never act officially to help repeal private express?

Mr. RYAN. I don't understand exactly what conflict. Perhaps I can give an analogy.

I was chairman of the Public Service Commission in Indiana, and I think that the public service regulations should be repealed, too. I was, if I do say so, a very good chairman.

Mr. HORTON. You probably also wanted to break up AT&T, didn't you?

Mr. RYAN. No. As a matter of fact, I'm not very strong on the antitrust thing.

Mr. HORTON. Well, it's the same thing.

Mr. RYAN. No, it's not.

Mr. HORTON. It certainly is. It was a monopoly, and the monopoly was taking care of the local telephone company. The Congress gets blamed for this. We had nothing to do with it. The courts did it. They broke it up, and now we are getting all these vast telephone bills, and the bills are going up, and they are adding this and that, and nobody can even tell what is what.

I called the other day from my office. A phone was out of order. The C&P couldn't help. Somebody else couldn't help. We still haven't got it worked out yet. Nobody knows who to blame it on any more. That's what we are going to do—sell off the good parts of the Postal Service and then leave the more difficult ones.

I'm very much opposed to the position that you take.

Mr. RYAN. I understand that.

Mr. HORTON. I'm surprised that you can change your hat and say that, as a member of the Board of Governors, you would have a different view.

Mr. RYAN. I don't have a different view personally. I function in a different way in that capacity.

I disagree with your analysis, as a matter of fact—I don't want to pursue it unless you do—on AT&T, but I don't think the situation is comparable at all.

Indeed, the good parts of the Postal Service which are being described are the very parts where the cost overruns are causing the most difficulty in connection with this deficit problem which we have right now. They are not being caused in the little post offices.

Mr. McCLOSKEY. Mr. Taylor.

Mr. TAYLOR. Do any other members wish to comment on this?

Mr. CAMP. I will, Congressman Taylor.

Mr. TAYLOR. OK.

Mr. CAMP. I'm opposed to any change at all in the private express statute. Being a long-time postal employee, I think it's the management of the Postal Service's responsibility to do the job. It would prevent the American public from demanding change in the private express statute, and I'm opposed to any change.

Mr. TAYLOR. Thank you.

Mr. HORTON. Let's hear from the rest of the members.

Mr. McKEAN. Congressman, that question is important enough that I would think it appropriate that you do ask each of the members.

Mr. HORTON. Let's go down the line like we did on the other.

Mr. VOSS.

Mr. VOSS. Yes. I support Chairman McKean in his analogy that you do have to earn the right, and I think that that will continue to be.

I, personally, have never advocated the repeal of the private express statutes. If you don't discipline yourself, others will discipline you, and I think that's the issue here. If the Postal Service would show that it cannot handle the first-class mail service properly, then there are going to be other pressures.

From my personal viewpoint, I do not believe in the repeal of them. I do feel, however, that the business of Government is not necessarily business, and to reconcile that I would suggest that in certain areas where we have poor service performance we consider testing or piloting contracting out certain services that would assist us in our service to improve that if we're too cumbersome to handle it.

Mr. HORTON. Mr. Griesemer.

Mr. GRIESEMER. Mr. Chairman, I'm probably as free market and rock-ribbed Ozark Republican as anybody has ever seen, but I still don't see how this organization can be reorganized into a competi-

tive type market. It is a natural monopoly, and I'm influenced somewhat by what Governor Voss says, that there are possibilities that we could improve service by contracting out certain parts of our efforts.

There is also the possibility that I think this board should always be open to change. We might be wanting to come in and ask for more authority perhaps to put on our own air freighters to move this mail faster. I'm just using that for an example.

I think that this board, as a long-range policymaking group, needs to keep looking at all the angles and seeing what we can do to serve the American people better.

Mr. HORTON. Mr. Sullivan?

Mr. SULLIVAN. Mr. Horton, at the risk of oversimplifying, I will observe that when you arrive in your office early in the morning your mail is there but your phone doesn't work.

Mr. HORTON. That's right.

Mr. SULLIVAN. I see no prospect of repeal of the private express statutes. I see no advantage in that repeal. I think, however, that this is an issue that will be settled not by political positions but by economics. If the Postal Service is not able to contain its costs and to provide the service that the people expect, then there will be, as the chairman said, a clamor for the repeal of those statutes, and no position, ideological or otherwise, that any of us hold will make any difference. It's a question of our performance.

Mr. HORTON. I would agree with that 100 percent. I want to underscore what the chairman said and what each of you have said in that respect. You really have to earn the monopoly. But that's part of your job as the Board of Governors, is to make sure that they do earn it, and that's why I'm talking about that inspector general, because I think they can help you, too.

Ms. Peters.

Ms. PETERS. I do see a strong analogy between the telephone company and the Postal Service.

Mr. HORTON. Attagirl! I'm with you.

Ms. PETERS. I think the telephone company is like Humpty Dumpty. All the king's horses and all the king's men cannot put Humpty Dumpty back together again. If you do that to the Postal Service, we will have even more of a disaster.

While we have been thinking about the mail monopoly, let's not forget that the Postal Service serves the Nation in times of emergency. It is the only Government agency in the community that can be relied upon to get the message to every single individual in the country. So it has other services beside mail, and we must not forget that. So we must have a universal Postal Service.

Mr. McCloskey. Thank you, Ms. Peters.

I believe that's everyone on the record.

Mr. TAYLOR. I think so.

Thank you, Mr. Chairman.

I appreciate the comments of every member of the Board, and certainly I think this is something that concerns a lot of people, and there are people who believe that the monopoly is wrong.

On the face of it, you can make a case for it, but I think anyone that goes into it in depth, in a thinking attitude, can recognize the explosive consequences that would result as a result of the repeal

of the private express statute, because, as Mr. Horton said, when you go to creaming the top off it, it's easy, but when you get the full, rounded service that this great institution has provided over its history, I think we're tinkering with something that would cause a great deal of consternation.

I happen to be one of those that also believe that this is a threat but one that can only be answered by performance by the Postal Service and doing a good job at a reasonable rate, where the public will be supportive of the monopoly, which I happen to feel is important if we are going to continue the same type of high quality service that the American people have come to expect from our Postal Service.

I think that that challenge can and will be met, and I happen to think the Postal Service is an organization that does function well. We always hear about the piece of mail that gets lost, but they fail to mention that 99 percent of it is delivered in a timely manner.

So I think the performance of the Postal Service is good, but I do think it's important to continue a vigilant quest for excellence in service if we are going to continue the support for the private express statutes that I feel are important for the continuation of this service.

Thank you, Mr. Chairman.

Mr. McCLOSKEY. Thank you, Mr. Taylor.

Sliding into another area, I think if there's one thing that's obvious to me, it's that Mr. Carlin is facing a major responsibility of handling problems that were essentially not of his making.

The board was here, and Mr. Bolger was here, but he was not at the top when most of the problems that were cited as causing the financial problems were decided or developed.

Paul has commented to me about his participatory style of management, with the emphasis not on mandating solutions to the different employees and centers, but asking the leadership at different levels, from employees on up, to come in with their solutions and get on with the cost-cutting.

This has perhaps caused some comment and concern in the postal community, including some comments from the Board of Governors. Evidently, his performance has been discussed in the trade press. I note the Business Mailers' Review recently quoted Mr. McKean, "If Bill Bolger were Postmaster General today, he would be pushing buttons and personally making things happen." Mr. McKean goes on to say that doesn't mean that the Board is dissatisfied with Mr. Carlin's performance.

Later in this article, another, unnamed, member of the Board, referring to Mr. Carlin's performance, says, "How can you approve or disapprove of his search for excellence? He hasn't given us one major program or completed the reorganization plan we requested."

Could each one comment specifically on Mr. Carlin's performance so far? Particularly, is there a detailed program underway to solve the cost problems?

If the person who perhaps did make the negative comment about not getting any results yet—if that person would care to elaborate on it, I'd appreciate it.

Mr. McKEAN. Mr. Chairman, I'm pleased to have it acknowledged that my quotes were attributed to me, and I stand behind them. I'd like to explain to you what I mean by them.

There is a great urge in any kind of crisis situation or perceived crisis to approach things on the quick-fix basis. In fact, it may have been, to some extent, at the urging of this board that costs were incurred, because we think service comes first, and when it started to deteriorate, we said, "That's the first thing we want you to straighten out."

There are, of course, other areas to which some part of the projected results for this fiscal year can be ascribed. I speak now, of course, of the CAB sunset and the inclusion of certain mail in the preferential mail stream.

We are asking that each of those two items be quantified so we can more intelligently discuss with you what portion of the projected deficit stems from that.

But as a general observation, let me say this. We conducted—Governor Voss and myself, as the contingency committee members—we conducted an exhaustive search for the person that we thought would be best to run the U.S. Postal Service.

I don't find any quarrel with Mr. Carlin's approach at all in that he has not given to people specific goals. I don't imagine Washington makes this much use of what we refer to as shrinks in California, but what they tell you is, in order for a solution to come out of a strained human interchange, the person who is looking for the solution has to be involved in the solution and committed.

Postmaster General Carlin first said to them, "It's your problem. You solve it. I'm telling you what the problem is, and I'm giving it to you straight." He had a meeting; he told them that.

Some people don't respond to that type of rather obtuse goal setting, and so now he has identified in specific terms what he expects with regard to certain categories of expense.

I stand behind what I said in Mr. Seagrave's Business Mailers' Review. We interviewed Mr. Carlin with the full knowledge that it would be a different style of management, and we expected that if there were problems they wouldn't be subject to quick solution by this method.

At the same time, I want you to be sure that we convey to you that this board will not be hesitant to change management if they don't reach goals that we think are appropriate. We have no intention of doing that, and my quote is the way I believe about the situation.

Mr. Voss. Mr. Chairman, I didn't make the other quote that you are referring to, but I would comment as a chief executive officer myself that every chief executive officer does have his own style.

It is difficult sometimes to sit on a governing body when you are switching hats from the private sector into the public sector, and having served on the search committee with Governor McKean, what we have done is taken our judgment and given it to our colleagues, and the colleagues have then accepted the judgment that we had, combined with their own, and we have accepted Mr. Carlin's style.

I think it is fair to comment that Mr. Carlin did run into an unusual situation, but, not unlike a lot of executives that go into cor-

porations, that's why he was brought in. We had a change that we had to face, and we faced it.

It is to be proven yet whether his style is correct or not. There is some indication that he is modifying his style. Rather than leaving it totally within the realm of the field to come up with the suggestions, I'm getting the indication as of the last meeting between himself and Deputy Postmaster General Strange that they are issuing more directives and saying, in the areas, as Mr. McKean has very well stated, where people don't accept the fact that they should take the initiation, that they are getting directives on what to do; you set some specific guideline.

So he is using a combination of techniques, and well he should. What doesn't work you stop and try something else until it works. It doesn't mean that he's floundering, it doesn't mean that this group of governors is floundering at all, and it doesn't mean that we are not backing the Postmaster General. It does mean that we have accepted his style. He is the chief executive officer, we have a chief operating officer, and they have every right to have an opportunity to perform.

They did have some unusual situations. The revenue drop, the labor settlement that required a stepup in overtime which is, in my opinion, unconscionable. I think it is a very, very bad situation, and it is very difficult to combine that with the blending of the second-class mail into the first-class mail stream as to what that cost is going to be, along with the deregulation of the airlines and the costs that that put us through.

We tried to put a price tag on this yesterday. We are doing some investigation on this internally. There is no way at this point. It could be \$200 million, it could be \$300 million, it could be \$400 million; we don't know what it is. It could be all of our debt or more.

So at this point, as a chief executive officer myself, he has been in the saddle 6 months, he's due the respect that he was given in the beginning, he is working very hard, his deputy is working very hard, and we are going to see what the results are. We won't hesitate to make a change.

Mr. McCLOSKEY. Mr. Voss, you commented that the overtime increase was a result of the labor settlement. I had been previously under the impression that it was largely attributable to the preferential second-class treatment of the monthly and weekly magazines and so forth. Can you comment on that?

Mr. Voss. I will comment, and then I will pass the question off to the chairman of our labor committee who worked in this area.

No, that's not correct. My understanding of it is that, toward the end of the bargaining, there was an offer made to the unions by management to have a stepup of prices—wages given to employees that worked overtime by degrees of whatever that overtime was, and it's that percentage and that proration as it goes up that is causing us a lot of damage, because we have had a lot of overtime hours.

But I think Governor Ryan can more intelligently and more in detail answer that part of your question.

Mr. RYAN. Actually, I can't. I think the situation pretty much is the way Peter describes it.

As far as what has caused the overtime, I, frankly, don't think at this stage we know—that is, that we've had an increased premium or penalty overtime, or whatever that super-overtime category is called, but we have also had other things that have added substantially to the cost.

For instance, the overtime can be involved in the CAB, too, as well as the airfare—the cost of putting the stuff in the plane and flying it from here to there.

One of the things that happened during that process is that nighttime freighters, which were a big source of moving large masses of mail across the country, were completely cut out on very short notice. All of a sudden now, you've got to transport that mail from hither to yon in some other way, and that involves an enormous extra workload on our folk.

So there are a number of different things, I think, which are impinging on this. I think perhaps one of them was that the work force had been reduced on a regular basis down to an absolute minimum and perhaps even a little more bare bones than that. Certainly under the circumstances that would be the case.

Mr. McCLOSKEY. Thank you, Mr. Ryan.

Does any other member of the board want to comment on problems or expectations with Mr. Carlin coming to the helm? Evidently there was at least one member more dissatisfied than happy.

Mr. RYAN. Excuse me. I didn't answer that question. Lest I be considered that member, I think Mr. Carlin is a fine chief executive. I think he's doing a fine job, and if it's possible to pull off the program which he has designated, I think he'll do it.

Mr. CAMP. Mr. Chairman, I'd like to clear up the labor situation about the overtime.

Before this last contract, the only time you'd ever get paid double time was, of course, holidays and on Sundays, but this last contract there was a paragraph added. I don't recall exactly how many hours you have to work overtime during the week before you start getting double time or any additional overtime that you do work.

Of course, when you exceed 10-, 11-, 12-percent overtime, you start paying double time for hours worked, and that was a great increase in the cost involved in operating the Postal Service, and that's what brought about us having to hire so many new people to reduce that double time that we were paying. We have almost eliminated that. I believe the Deputy Postmaster General yesterday told us it has been dropped tremendously now; we are not paying too much there.

Now, for me to comment just a little bit on Paul, I really like Paul's style of management; he's a delegator. He hasn't been there long enough yet for us to know whether he holds the people accountable or not. If he holds them accountable and sees that they carry out the job, I don't think we could ever do any better. But I love the style that he uses in delegating responsibility, because I think in any organization this large you have got to handle it that way.

Mr. McKEAN. Mr. Chairman, may I pick up on one aspect of this?

Mr. McCLOSKEY. Mr. McKean.

Mr. McKEAN. I know it's difficult as the flow occurs, but the observation with regard to the fact that there is a penalty for double time is perceived as a costly feature of the contract, and perhaps that is so, but what it does put up on management is the responsibility to see to it that they don't overwork their employees also.

In fact, in order to kind of distinguish between the cost and the hours, the number that makes sense is comparing it to the number of overtime hours per 100 hours, and the management of the Postal Service had at one time in this fiscal year at or approaching 11 hours for every 100 hours, which would include these penalty hours that my colleagues are speaking about. Cumulatively, it's now down to 9.3, and in this particular accounting period No. 9, it's 6.2.

So what this means is, we have hired new employees, and it takes some time to train them, but in terms of the future of the Postal Service, it seems to be the right thing to do. We have a work force that now is not functioning at extraordinary hours at extraordinary cost to us.

I'm sorry if I interrupted, but I did want that thought to get across.

Mr. McCLOSKEY. Thank you, Mr. McKean.

Mr. Horton has a question or two.

Mr. HORTON. Mr. Chairman, thank you.

I have a number of questions, but I do have an appointment in my office, and the House is going in at 12. I am going to have to leave, but I did want to ask a couple of quick questions.

Governor McKean, you said that you call on the chief inspector, but as I understand it, the chief inspector is appointed by the postmaster general, so he is not really accountable to you.

Is it possible that the chief inspector could be appointed by the Board of Governors, just as you do the postmaster general? Has anybody thought of that?

Mr. McKEAN. We haven't, and I'll tell you why. We regard our Inspection Service and the head of our Inspection Service, to be scrupulously independent when they are commissioned to perform a particular task for us. It is in that sense that I felt that Governor Camp was correct in relying upon them.

Mr. HORTON. The other question I had was—and I did mention this a few minutes ago to Governor Peters—I'm tremendously impressed with what the Chairman of the Board of Governors has had to say about your work with the ZIP+4 Program. Would you like to add anything else to what has already been said?

We had a hearing on that program just recently, and I'm impressed that that program, with the right spur, with the right PR, if you will, could be, a real moneymaker for the Postal Service.

Perhaps you might want to add some comments to what has already been said about that program and what has been done to spur it on.

Ms. PETERS. I certainly agree with what you have said. I believe that the ZIP+4 program will bring sweeping changes to the Postal Service and certainly keep the cost of processing mail down, and I think it will give us much more efficient service.

I want to identify the members of this committee. It's a three-person committee—myself, Governor Voss, and Governor Camp.

Management has appointed a management representative, the Deputy Postmaster General, Jackie Strange.

I have prepared a brief statement to read to you, and then I would be very happy to answer any question you have or, again, briefly describe basically how we look at the ZIP+4 Program.

As I just said, the Board of Governors shares the concern expressed by the subcommittee over the ZIP+4 automation program. The apparent lack of acceptance by the mailing public by ZIP+4 code has caused the Board of Governors to reevaluate the overall policy governing this program.

Management must now implement certain midcourse corrections. The policy governing ZIP+4 must consider all aspects of the total effort. ZIP+4 will bring sweeping changes in the mail processing. We have looked at the marketing aspects, training of personnel, possible effects that may occur in the postal rates area, setting up the necessary support systems, and indeed all aspects of the program, including the necessary hardware and software to get the program under way.

I would like to emphasize the software here, as this includes the computerization of the local and national directors for processing the schemes.

Over the months that the technology and development committee has studied the ZIP+4 Program, it has become increasingly clear to us that the Postal Service must take immediate steps to develop four-line, multiline capability. Usage of the ZIP+4 code is running well behind the projected levels. The single-line machines now on order are simply not adequate to process mail effectively at the present usage levels.

On the other hand, with the four-line capability, we can achieve substantial savings whether or not mailers use the ZIP+4 code. The four-line machines will produce the greatest return if the mailers do use the ZIP+4 code. Thus, we intend to redouble our efforts to promote usage of ZIP+4 code so as to achieve the greatest possible savings.

But the important point is that, by establishing a four-line capability, we can achieve substantial savings at whatever usage level the ZIP+4, and postal management will have more effective control over the operations.

The question that remains open is how to make the smoothest and fastest transition to an effective four-line capability. It is not the responsibility of the board to make procurement decisions or to choose one vendor over another. I can assure you, however, that the Postal Service will carefully examine every available option and make a choice on the basis of competitive procurement procedures.

The decision will be based on the price and the performance of the machines under consideration and the vendor's ability to assure timely delivery.

In conclusion, let me reemphasize a point I made earlier. The choice of hardware must not distract from the many other things that need to be done with ZIP+4. Management is making an impressive effort to improve our marketing efforts and taking all steps necessary in the program as a whole to succeed.

The Board stands behind the ZIP+4 Program. The program promises great savings and can be of benefit to all members, and we are determined to take whatever steps are necessary to make this program work.

Finally, with your permission, I would like to submit for the record a copy of the letter that we sent to Chairman Leland on July 8 regarding the ZIP +4 Program.

I am certainly now open to questions.

Mr. HORTON. Thank you, Governor Peters.

I'll ask unanimous consent that that letter that you wrote to Mr. Leland be placed in the record.

[The letter follows:]



BOARD OF GOVERNORS
Washington, DC 20260-1000

July 8, 1985

The Honorable Mickey Leland
Chairman
Subcommittee on Postal
Operations and Services
Committee on Post Office
and Civil Service
209 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Leland:

Chairman McKean has asked me, in my capacity as Chairman of the Board's Technology and Development Committee, to respond to your letter of June 27, 1985, concerning the possible conversion of single-line optical character readers to a multi-line format.

The Technology Committee is in the final stages of a thorough review of the entire ZIP + 4 automation program. We have paid particular attention to the vitally important choice between single-line and multi-line technologies. The conversion question addressed by your letter is one piece of this broader issue, and we have studied it carefully in that context.

Our review convinces us that the ZIP + 4 program can and will produce substantial savings to the Postal Service and mailers, but only if every element of the program is properly in place. The Postal Service must have technology sophisticated enough to meet the extraordinary demands of moving this nation's mails -- with or without mailers' use of the ZIP + 4 code. But the technology cannot do the job without substantial improvements in our marketing efforts, without high quality training programs for postal employees, without an appropriate rate structure and without adequate support systems. At the Board's direction, our committee is taking a systematic look at the entire effort to ensure that each new step, including the possible awarding of contracts to procure conversion kits, is consistent with our best judgment as to the overall direction in which

BEST COPY AVAILABLE

the program should now proceed. The Board is determined not to throw good money after bad.

Your letter indicates a strong preference for the multi-line approach, particularly in view of the disappointing usage levels for the ZIP + 4 code. It also notes your concern that the Board may be resisting the move to multi-line technology. Let me assure you that the very opposite is the case. The Board's Technology Committee is convinced that mailers cannot reap the full potential benefits of postal automation unless the Postal Service equips itself, as quickly as possible, with sophisticated multi-line equipment backed up by the necessary address directories and other support systems. You will be pleased to know that it is our strong recommendation that the Postal Service move as energetically as possible in this direction, since each week of delay means the loss of substantial savings that could otherwise be achieved. We also agree with your assessment that use of the ZIP + 4 code will enhance the savings produced by the multi-line technology. For that reason, we intend to increase our efforts to promote use of the ZIP + 4 code.

The question that remains open is how to make the smoothest and fastest transition to a workable and effective multi-line capability. Conversion kits for single-line machines are one option, but not by any means the only one, for achieving that objective. Even with full implementation of the multi-line approach, the Postal Service could still derive substantial benefit from the use of a large number of single-line OCRs, perhaps making it unnecessary for us to incur the additional expense and technological uncertainty necessarily involved in trying to convert the single-line machines we have already purchased. I can assure you that the Postal Service will look carefully at the conversion option in the weeks ahead and consider whether, in light of all the information now available and our experience with the program to date, this approach would be cost-effective and in the best interests of the mailing public.

The members of the Board appreciate the interest you have shown in the ZIP + 4 program and, in particular, the strong support you have voiced for the multi-line approach. If there is any further information I can provide, please do not hesitate to get in touch with me.

Sincerely,

Ruth O. Peters

Ruth O. Peters
Chairman
Technology and Development
Committee

Mr. McKEAN. May I say, Mr. Chairman, the Board, in recognition of Governor Peters' tireless efforts, has passed a resolution of commendation, and may I ask that that be incorporated into my prepared statement?

Mr. McCLOSKEY. Without objection.

Mr. McKEAN. Thank you.

[The resolution follows:]

RESOLUTION OF THE BOARD OF GOVERNORS OF THE U.S. POSTAL SERVICE

RESOLUTION NO. 85-4

Implementation of the ZIP+4 Program

The ZIP+4 program, launched in 1978, is intended to enhance the efficiency of the Postal Service's efforts to automate the sorting of mail and produce substantial benefits for all mailers: restraint on postal costs, greater consistency of mail delivery, and increased rate stability.

The program went into service on October 1, 1983, when the Postal Service first offered rate incentives to encourage use of the ZIP+4 code for large mailings. Beginning on that date and through the present, postal management has vigorously promoted the program, but so far with less success than those who planned the program had anticipated. In recent months, the Board's Technology and Development Committee has undertaken a thorough study of the entire program and is working effectively with postal management to help the program achieve its great promise. Now, there, it is hereby

Resolved, That the Board:

1. Expresses its appreciation for the outstanding work of its Technology and Development Committee;
2. Expresses appreciation to business and government mailers who have taken the initiative to adopt ZIP+4; and
3. Expresses its continued strong support for management's efforts to make the ZIP+4 program succeed.

The foregoing Resolution was adopted by the Board of Governors on June 4, 1985.

Mr. HORTON. Mr. Chairman, I want to thank Governor Peters, Governor Camp, and Governor Voss for the fine work they are doing on this.

I hope that you will continue to ride herd on this program, because I think it's very important that this program move forward.

Because I do have to leave, I would like to express, Mr. Chairman, to each member of the Board my personal appreciation—and I'm sure I speak for the other members—for the dedication and the work that you do. I don't mean to say that when we ask our questions here we are being critical of you. We are just trying to get information, and probably we appreciate the job that you do more than anybody else, because you are working on a part-time basis, which, as I said earlier, is a full-time basis, practically, and you are very dedicated, and you are very hard working.

It is important, the job that you are doing, and most people don't recognize that. Often, they just look on you as people who keep raising the postal rate, and it's not that at all. It is important for you to do the things that you have indicated that you have been doing, and particularly with regard to these private express statutes, to make certain that that monopoly is earned. I think that's a good way to put it. I want to congratulate you, and I hope it won't be 10 months before we have you back here, because I think it's very important for us to know what you're doing and to keep track of the work that you're doing.

Mr. Chairman, I thank you for the opportunity to ask the questions and make this statement.

Mr. McKEAN. Thank you, Congressman Horton.

You have sustained your reputation for unfailing courtesy. Thank you.

Mr. McCLOSKEY. Thank you, Mr. Horton.

I might note that we have a recent arrival.

Mr. de Lugo, would you have any questions or comments, sir?

It's good to see you.

Mr. DE LUGO. Thank you very much, Mr. Chairman.

I'd like to join with the gentleman from New York in his comments. Not only does he have unfailing courtesy, but he has a keen perception, too; I'm sure you'll agree.

I just want to listen to the exchange between the committee and the Board of Governors. Thank you.

Mr. McCLOSKEY. Thank you, Mr. de Lugo. It's good to have you.

I just have several more questions.

One of the major problems that the Postmaster General cited when he appeared before us was the failure of the airline contracting system. Three-fourths of the contracts have had to be renegotiated, and costs have been much greater than anticipated.

In that light, do you have any plans to make changes or alterations in the present system?

Mr. McKEAN. The management plans are the best that can be accomplished under the circumstances. Governor Sullivan has some particular comments that he may wish to make with regard to this subject.

Our investigation indicates—even a cursory investigation indicates—it to be a significant part of our additional cost, and in fact in accounting period No. 9 alone, there is an increase of at least \$20 million over the plan for those costs.

With regard to other issues, may I ask that Governor Sullivan address it.

Mr. SULLIVAN. Mr. Chairman, let me begin by following through on an earlier question. I believe that we made an excellent choice in the selection of Paul Carlin as Postmaster General last fall, and I'm fully satisfied with his performance to date.

One of the more serious problems that he and the Postal Service have faced is the large-scale changes that have occurred in air transportation in this country as a result of deregulation. A system that was already oriented toward passengers rather than mail, understandably, was even more concerned with minimum cost operations, with discount fares. A tremendous push occurred to minimize airline costs, and a number of flights that were essential to reliable mail delivery were removed. At the same time, the cost of flying mail on a totally different contracting basis than the CAB tariffs increased dramatically.

Although the Postal Service had made many plans to meet this challenge and had equipment that would read bag tags and do other things in terms of accounting for airline payments, it, nonetheless, was overwhelmed by all of these changes, and that has been a serious contributor to the service problems that occurred earlier this year.

I see, however, some daylight in the area of express mail, which is the Postal Service's premier service. The management has entered into specific long-term contracts with carriers, not on a flight-by-flight basis but have simply leased aircraft, and although that's a very limited program to date, its results have been excellent. I see the likelihood of that program or programs similar to it increasing, and I hope we will have the support and sympathy of this committee as we look to new solutions to moving the Nation's mail. We simply can't rely on taking the mail to a scheduled flight and then hoping they will take it for us.

Mr. McCLOSKEY. Thank you, Mr. Sullivan.

How about the area of revenue forgone? As you know, the House and the Senate are at different ends on that, and I'm not sure that the board has made a definite policy statement. It's a matter of very great interest, given the financial concerns.

Could you comment, Mr. McKean, or anyone else who would care to?

Mr. McKEAN. As a matter of fact, addressing that specific issue, I, as Chairman, issued a statement on the revenue forgone matter. The position, as I articulated at that time, is that in the absence of congressional appropriation at the levels that were requested, even the Senate version appears to guarantee that the free mail for the blind and handicapped would be continued.

If no other appropriation comes, then we indicated that our contemplated action would be to raise the preferred rates to step 16. That's the phasing element of the appropriation.

With respect to increases beyond that—and that is a significant factor in deciding whether or not a rate case would have to be filed—my previous answers to you with regard to rate cases and the timing were related to the operational situations that occurred by way of the deficit. That's an external event for which we are looking for some direction.

But if we do not receive any appropriation beyond that, we can expect that the Board position will be that the determination of what level preferred rates should be set will be part of an omnibus rate case.

Mr. McCLOSKEY. Following up, is it your position that the Postal Service, under existing law, has no legal authority to charge preferred rate mailers more than their attributable costs?

Mr. McKEAN. We have an opinion of counsel that indicates that we may raise those rates beyond the attributable cost level. We may, but we are not required to do so.

The statement was intended to rest some of the fears that might otherwise have come within the preferred mailing community and let them know what the position of the board would be.

We are, quite frankly, looking for some direction, and we thought it appropriate that we inform Congress, and the administration, and our mailers what our position is concerning this matter.

Mr. McCLOSKEY. You don't have any strong statement right now about the cross-subsidization issue then, Mr. McKean?

Mr. McKEAN. My opinion with regard to the cross-subsidization issue is that it does not amount to cross-subsidization if we bring the preferred rates up to 16. Our position is that subsidization in-

volves a contribution from one class of mail to another class of mail toward the overhead or institutional costs.

If we charged the preferred mailers their full attributable costs, then we think we do not have an issue of subsidization.

Mr. McCLOSKEY. The Postal Service tells us that we must appropriate about \$750 million for fiscal year 1986 in order to put preferred rates at step 16. Are you telling us that whether we appropriate \$750 million, \$100 million, or no money, preferred rates will be at step 16 on October 1 of this year?

Mr. McKEAN. I'm not sure I understood that question.

Mr. McCLOSKEY. I'll try it again.

Are you telling us that whether we appropriate \$750 million, \$100 million, or nothing that preferred rates will be at step 16 on October 1?

Mr. SULLIVAN. I think the answer to that is yes.

Mr. McKEAN. In effect, the statement says that specifically. Yes.

Mr. RYAN. Could I comment?

Mr. McCLOSKEY. Mr. Ryan.

Mr. RYAN. What you begin to run into when you get into this business of spreading the institutional costs—the institutional costs which otherwise would be applied to preferential mail which is now covered by the subsidy—when you begin redistributing that, you run into all sorts of market problems with respect to the effect on volume.

It's a substantial amount of money, and particularly if you start plugging it in, for instance, under the preferred mail rates. If you take them up from step 16 to something that you might assume was a reasonable amount of institutional cost application to it, you are talking about increases in the magnitude of 100 percent or something of this sort from where they are now, or where they would be at step 16.

So now you get into a situation where, is anybody going to use them at that rate? So now you are beginning to affect the revenue that the Postal Service receives, and these are all matters which the Postal Rate Commission was put together for. That's why they are there, to participate in judgments of precisely that kind.

Mr. McCLOSKEY. Could we get a statement on the evaluation of the changes in second-class mail handling? Was that a wise policy change at the time, or has it been more trouble than beneficial?

Mr. McKEAN. I believe you are going to get from us rather candid opinions concerning that. It was a problem we didn't need with the sunset of CAB, with the need to work with a labor contract that was somewhat new to us. So with the benefit of hindsight, we wish it hadn't happened.

We have responded to you by telling you that we would like to have management do the best job they can to quantify that. Having said that, however, this may be one of those decisions that, in the long run, prove to be to the benefit of the Postal Service.

In order to really evaluate whether it is, though, we have to ask what the cost has been and that it be measured. Again, in retrospect, before it went in, it would have been nice if we had a before study and an after study so we could measure what the incremental cost of this change really meant.

Mr. McCLOSKEY. Thank you.

Mr. Carlin expresses real concern for progress in EEO and affirmative action. I understand the Board has considered the Clark study. Could I hear an official evaluation of the Clark study from Mr. McKean or anyone who cares to so comment?

Mr. McKean. I will, Mr. Chairman, make some introductory remarks and then direct you to a Board member that I specifically asked to refer to the Clark report and make an evaluation and use it to the best advantage possible for the U.S. Postal Service.

We don't believe that the U.S. Postal Service has an institutional bias. We believe that we have a good record with regard to minority hiring, and we have a good record with regard to our percentage of the work force.

I won't bore you with the statistics concerning that, but I will tell you that, as an element of the interview of Paul Carlin, this is one of the very things that we talked to him about in great detail, and I'm very pleased with the fact that Mr. Carlin took a fresh look at this. He didn't look at the common types of statements and some of that buzz-word language that I just used about, "We don't have an institutional bias." He did something else. He looked at the numbers. The numbers just don't work out. We haven't brought people up through the supervisory levels that satisfied Paul.

As you have heard from us, I hope we have impressed you that we are an active board, but, on the other hand, it is management's decision to make this type of change. We didn't insist that Paul Carlin do the type of things that he did. We did consider it in the interview process, and his answer to us is, "John, the numbers just don't work out. I'm going to do something."

Having made that as a kind of introductory comment, may I refer you now to Governor Voss who has worked with the Clark report and is the most knowledgeable on the Board about that particular issue.

Mr. Voss. Thank you, Mr. Chairman.

Mr. Chairman, I was given the responsibility of looking into the report that our board had asked to be done, which we initiated. It was not a Postal Service-initiated report. It was a study, through Dr. Clark, that we requested to be done.

That report became public by some manner or method, and, because of the report becoming public, then we were questioned with our own ammunition.

I have met with Dr. Clark on numerous occasions, both under the time that Bill Bolger was the Postmaster General, and subsequently introduced Postmaster General Carlin to Dr. Clark in New York some months ago.

It was obvious from the report that there were some areas that the governors should question postal management on our internal practices. We did do that, and, at the time that Postmaster General Carlin came in, Mr. McKean is quite accurate, we were well aware of what was going on. Because of that report, there were things called to our attention that we felt would require remedy, and that was discussed in detail with Postmaster General Carlin.

At the point that Postmaster General Carlin took office, one of the first official acts that he performed in relation to outside

people who had interest in what was going on in the service was to accompany me to New York to meet Dr. Clark.

Dr. Clark, by virtue of his own statements to me, felt that Postmaster General Carlin had a sensitivity that he felt was refreshing toward this subject.

After that, the Postmaster General made some mechanical changes within our procedures, and Dr. Clark was advised of those as a courtesy, although we didn't have to do that, but, because of the fact that he had made the report, we felt that he should be apprised of what we were doing.

In all of the meetings that I have had with Dr. Clark since I took over this responsibility from the former vice chairman, I have had the distinct impression from Dr. Clark—he has told me on numerous occasions—that he is very pleased with what we have done with the report.

The equal employment opportunity affirmative action program contemporarily has made significant progress in the last 7 months. First, in the affirmative action area, the officer and the postal career executive service promotions have markedly increased the upward mobility of the minorities and females.

Specifically, an Asian-American female was appointed as an officer; seven minority executives have been reassigned to higher-level positions; three minorities, one of whom is a female, have been newly promoted to the ranks; and two minority PCES candidates have been detailed into management section center manager-postmaster positions.

Further, the Postmaster General has issued a six-point plan so that, wherever possible, the applicant process for executive positions will further ensure the consideration of qualified women and minorities.

Finally, in May 1985, 64 EEO specialists who are domiciled throughout the country completed a 2-week training course, and they will now be concentrating a majority of their time in monitoring the recruitment, retention, and promotion of minorities and handicapped employees and eliminating barriers to upward mobility.

The Postal Service is also streamlining the complaint process to handle discrimination claims much more expeditiously. The Office of EEO will be focusing its attention generally on training and assisting managers in the EEO complaint system. Specifically, the Office of EEO has recently issued an EEO complaint processing guide for postal managers and plans to issue regulations, handbooks, and additional guides on specific areas of EEO law—in other words, handicapped, discrimination, sexual harassment, and affirmative action reverse discrimination.

I would point out also, as a matter of interest, our Postmaster General—and this certainly doesn't address the crux of the issue—our Postmaster General is of Hispanic descent. Jackie Strange—of course, I don't have to speak to the fact that she is very much a capable officer. Nancy George is the Executive Assistant to the Postmaster General. Ann Robinson is our consumer advocate. Our program manager photographic production, Sam Tsunoda is Japanese. Mary Layton, the head of our public relations, is a black.

Karen Uemoto is of Japanese descent and heads our rate classifications.

So I am very familiar with the Clark report. I'm very familiar, in particular, and am very proud, by the way, as a result of my responsibility, to have become acquainted with Dr. Clark, an extremely fine individual. I think the fact that we did do this study with Dr. Clark has been very much to our benefit.

I'd be very happy to answer any of your questions.

Mr. McCLOSKEY. Thank you, Mr. Voss.

Mr. Taylor, do you have any comments?

Mr. TAYLOR. No; thank you.

Mr. McCLOSKEY. Mr. de Lugo.

Mr. DE LUGO. I have no comments.

Mr. McCLOSKEY. I think we are just about winding up. I might say that, as I said to Mr. Carlin, he has been somewhat helpful, but I still think we need a lot more specific information.

Mr. McKean, I think you expressed a concern for specific information, and I really admire the way you really dug in today and almost promised that there would be no rate increase applied for. If you could, as soon as possible, give us specific briefings on where the savings are going to come from, so this isn't really on our minds as we hit the fall, I'd really appreciate it. My summer would be a lot better without thinking about this.

I know some Members, at the suggestion of staff, will have additional questions that they would like to submit to you in writing—if we could get them back for the record. Most of them are likely to be in the area, Governor Peters, of ZIP+4.

I'd like to thank you very much for all your presentations today. I really admire your vigor and dedication. Thank you.

Mr. McKEAN. Thank you, Mr. Chairman.

Mr. McCLOSKEY. The subcommittees are adjourned.

[Whereupon, at 11:55 a.m., the subcommittees were adjourned.]

[The following letters were received for the record:]



BOARD OF GOVERNORS
Washington, DC 20260-1000
September 6, 1985

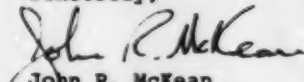
Honorable Frank McCloskey
Chairman, Subcommittee on Postal
Personnel and Modernization
Committee on Post Office and
Civil Service
House of Representatives
Washington, D.C. 20515

Dear Congressman McCloskey:

This is in response to your July 18 letter posing eleven questions for the record of the July 9 oversight hearing.

Enclosed, please find the requested responses. If you require additional information, please call me or have your staff contact Mr. David F. Harris, Secretary for the Board at 245-3734.

Sincerely,


John R. McKean
Chairman

Enclosures

BEST COPY AVAILABLE

- Q. The Postal Service is way off target in meeting its projected financial goals for Fiscal Year 1985. The current Postmaster General, Mr. Carlin, was not in office when the decisions were made which adversely impacted on this year's budget. In your opinion, which decisions or strategies contributed the most to the current fiscal problems?
- A. It was initially projected that the Postal Service would earn a small net income in Fiscal Year 1985. However, during February 1985 it became evident that Fiscal Year 1985 results would be substantially lower than forecasted. The major factors contributing to this decline in earnings were three in number.
- CAB Sunset - Regulated air transportation rates ended on December 31, 1984, and thereafter rates were determined in a competitive contracting environment. No increases in air transportation costs were planned to occur in 1985. However, air transportation costs have increased substantially, projected to exceed by \$137 million what was planned for the fiscal year.
 - Second-Class Mail Processing Shift - The movement of second-class mail processing from the Bulk Mail Facilities to General Mail Facilities was completed in December 1984. This transfer has created an increase in mail processing costs which was not forecasted. The extent to which this has increased

postal costs is under audit by the Postal Inspection Service.

- Productivity - The Fiscal Year 1985 operating forecast assumed a very aggressive productivity improvement. It now appears that actual results will be much lower than anticipated. This is difficult to quantify inasmuch as many factors contribute to decreased productivity and have a cost impact in their own right.

Q. I am quite concerned about the excessive use of overtime, particularly because of the adverse effect on both postal employees and the agency's fiscal plan. Why was the decision made to use on-board employees to fulfill such high workhour needs, instead of hiring new employees to accommodate the agency's workload? Do you believe that additional hiring is needed now, in order to reduce the level of overtime usage?

A. Notwithstanding the unprecedented rapidity of the economic recovery and its unprecedented effect on volume growth, the Postal Service probably exercised more hiring restraint than was prudent in 1983 and early 1984. In addition, the Postal Service was heavily involved at that time in automating its mail processing operations nation-wide and was reluctant to bring new employees on board who might shortly thereafter prove surplus to its needs. As it turned out, volume growth more than offset the operational efficiencies which the

Service was able to achieve through automation, the full impact of which has yet to be realized due to slower-than-expected growth in ZIP + 4 volumes. As a consequence, the Postal Service found itself hard pressed to handle the rapid build-up in workload without an unacceptable level of overtime usage during 1984 and early 1985. When this first became evident, the Service accelerated its hiring so that between January 1985 and the present, 40,000 employees have been added to the rolls.

Consequently, the service-wide overtime usage rate, -- 10.6% at the beginning of this fiscal year -- was reduced to 4.6% in accounting period 11. We believe this approaches an acceptable level of overtime, for anything less is likely to create overstaffing during those periods when the natural fluctuation in volume reduces workload below normal levels. We therefore do not believe that additional hiring is now necessary, other than to cover attrition or for very selective purposes.

Q. Postmaster General Carlin told the Subcommittees at our oversight hearings last month that Postal Service management must take responsibility for turning around the current deficit situation. How do you think the responsibility should be divided between management and non-supervisory employees?

A The Postmaster General is quite correct in observing that postal management has the responsibility to use its imagination and acumen to devise the strategies to enable the institution to address the current financial situation. However, each and every postal employee, supervisory or non-supervisory, has the obligation to the Postal Service and its customers to work as productively and energetically as possible to keep the Service heading in the right direction. The relative responsibilities of management and craft employees are not possible to quantify, but it is clear that the direction and scope of the cost savings and service improvement effort must come from management.

Q. Each year, thousands of grievances are filed by employees and we have received numerous reports of what appear to be unnecessary disciplinary actions. This all tells me that there are problems in the workroom; that employees feel their needs and views are not being heard and that they are not a respected part of the Postal Service team. How would you propose to improve the relationship between labor and management and to include non-supervisory employees in the overall effort to improve the agency's performance?

- A. Each of the five postal regions has developed individual action plans to maintain and improve employee performance with less reliance on discipline or the traditional forms of discipline. Among these efforts have been improvements in craft training for new employees to get them off to a better start, and pilot programs in selected offices which emphasize improved attitudes and communication in the workplace. The new collective bargaining agreement between the Postal Service and the American Postal Workers' Union and National Association of Letter Carriers provided for the establishment of a Discipline Task Force to be composed of members from the Postal Service and the two unions. This Task Force has been meeting regularly since March 1985 to jointly address the causes of discipline and to develop further strategies which build upon the pilot programs already underway.

Throughout the period that these proactive strategies have been pursued, the Postal Service has continued its expansions of the Employee Involvement/Quality of Worklife (EI/QWL) process. At present, this process is

being coordinated with three of the major unions and is directed squarely at increasing employee involvement in the work place and soliciting ideas for improvement. Reports from pilot program offices indicate that having the EI/QWL process in place enhances the implementation of the pilot programs because of the degree of cooperation between union, management, and employees which has already been established.

- Q. In response to questioning at the July 9th oversight hearing, Governor Voss indicated that the Board of Governors did not intend to release publicly the results of the Clark study, which documented discriminatory hiring and promotional practices in the Postal Service. Why was the Board reluctant to release the Clark Report? Does the Board agree or disagree with Dr. Clark's findings? What steps will the Board take to help improve EEO and affirmative action in the Postal Service?
- A. While the Clark study did not identify specific Postal Service policies or procedures as discriminatory, it provided some interesting observations. Specifically, the study addressed the problem of "perceptions" held by Postal Service employees and concentrated on the various aspects of the operation of the Postal Service's personnel and EEO systems. The Board agrees that some employees have such perceptions and that those perceptions should be addressed. Dealing with employee perceptions, however, is difficult, particularly when such perceptions are critical of non-discriminatory

processes. Two ways in which the Service is addressing these perceptions are to emphasize improved human relations skills for managers and supervisors and to increase all employees' awareness of the Postal Service's continued progress in the equal employment opportunity/affirmative action program. Further, since the Board believes that current Postal Service EEO personnel and systems are adequate to address employee concerns about discrimination and affirmative action, improvement will be achieved primarily by making EEO a line responsibility of Postal Service managers. This hard and fast policy is being communicated by senior postal management and by EEO professionals and appears to be working.

In addition, the Postmaster General has issued a six-point plan to ensure that, where possible, the applicant process for executive positions will further the consideration of qualified women and minorities. Moreover, in May 1985, 65 EEO Specialists located throughout the country completed a special two-week training course and will now be concentrating a majority of their time on monitoring the recruitment, retention, and promotion of minorities and handicapped employees and eliminating barriers to upward mobility. The Postal Service is also streamlining the complaint-processing

system to handle discrimination claims more expeditiously. Attention is being focused on training and assisting managers in the EEO complaint system. The Office of EEO has recently issued an EEO Complaint-Processing Guide for Postal Service managers and plans to issue regulations, handbooks, and additional guides on specific areas of EEO law.

- Q. I am concerned about the apparent lack of proper controls over contracting by the Postal Service, particularly in terms of cost. For example, I understand that the Inspection Service is investigating a payment of over \$7 million to E-Systems of Dallas, a company under contract. In light of the agency's poor financial situation, what steps will the Board take to ensure that the Postal Service monitors performance and payments under its contracts more closely?
- A. The investigation to which you refer was an audit of the Postal Service's procurement function which involved reviewing 123 separate procurements, including that for the M-36 facer-canceller. The contract in question called for progress payments only after Defense Contract Audit Agency audit, with the final payment due only after acceptance of every contract item. The payment in question, \$7.5 million, was a settlement of the contractor's claims for equitable adjustments totalling \$11.2 million. The Postal Inspectors who conducted the audit questioned the cost overruns and whether the Board was actually aware of and approved the settlement payment. Although the payment was made in June 1982, the Board was not advised of it until May 1984.

The Board and postal management have taken strong action to ensure that future contract performance and payments are monitored closely. The Board's bylaws now make clear that the Board must be told in advance of claims which would increase the cost of a program beyond the amount approved by the Board. Prototype equipment will now be tested on site under release/loan agreements and a new system will control significant projects from their inception to their completion. New technology development will be overseen by a high-level Technology Planning Committee. In addition, the Board's own Technology and Development Committee has played an aggressive and very effective role in reviewing a number of critically important procurement actions. Of course, the Board and management will continue to make extensive use of the audit capabilities of the Inspection Service and its program of developmental, operational, and financial audits.

- Q. If the Senate Budget Resolution, S.C.R. 32, were adopted by Congress, what would be the exact dollar totals for the payment to the "unfunded liability" as prescribed by the Senate Budget Resolution? How much is that an increase over the current rate of payment to the unfunded liability (both dollar figures and percentages?) Please state the dollar amounts and the percentages on a year-by-year basis, with particular attention to the out-years.

- A. Public Law 93-349 requires the Postal Service to pay that portion of any estimated increase in the unfunded liability of the Civil Service Retirement and Disability Fund attributable to benefits payable to active and retired Postal Service employees and their survivors when the increase resulted from an employee-management agreement or administrative action which authorizes increases in pay on which benefits are computed. The estimated increase in the unfunded liability is determined by the Office of Personnel Management and the Postal Service pays the amount so determined in thirty equal installments with interest computed at the rate used in the most recent valuation of the retirement system. Therefore, unless OPM changes the actuarial formula which determines the unfunded liability, the unfunded liability payments will not be affected if the Senate version of the budget resolution were adopted by Congress. The unfunded liability payments at the current rate are projected to be as follows:

<u>Fiscal Year</u>	<u>Total Unfunded Liability Payment</u> (millions of dollars)
1985	1,374
1986	1,411
1987	1,472
1988	1,740

Q. What is the current total that the USPS has contributed to the unfunded liability since that payment began? What will that total become in each of the years prescribed by the Senate Budget Resolution?

A. Since July 1, 1971, the Postal Service has made principal and interest payments totaling \$6,759,512,000 against the unfunded retirement liability. Estimated payments, at the current rate, would increase this total to the following amounts in future years.

<u>Fiscal Year</u>	<u>Cumulative Total Payments</u> (millions of dollars)
1985	8,134
1986	9,545
1987	11,017
1988	12,757

Q. If the budget requires increased unfunded liability contributions prescribed in the resolution, will those come from general revenues? If not, where will they come from? Please be precise. How would the money for the increased unfunded liability contribution be raised: rate increase? service cuts? salary cut or benefit reductions? Please be precise. If the funds for the increased contribution comes from the mailers, how will it effect their rates? How much would it raise rates? What percentage would such a rate increase be over current rates? of Step 16 rates?

A. As stated above, we do not anticipate that the unfunded liability payments would change due to the adoption of the Senate version of the budget resolution. Although we do not believe the unfunded retirement liability payments would be altered by this measure, there would be an increase in Postal Service costs due to the proposed increase from 7% to 9% in the employer's

matching retirement contributions. This change would result in the following expense increases.

<u>Fiscal Year</u>	<u>Increased Retirement Expense</u> (millions of dollars)
1986	342
1987	360
1988	394

If the Postal Service were required to assume this extra expense, which would be paid out of general revenues, the Service would look first to the expense side of the balance sheet to affect savings prior to even thinking about raising postage rates. We would aggressively explore every possible cost saving available to us at the time, but the specific strategies which the Postal Service would have to undertake to deal with these possible increases have not yet been decided upon.

- Q. Would the Board of Governors expect that an increased contribution to unfunded liability would affect labor negotiations? How would they affect them?
- A. Under the formula for determining unfunded liability, the dollar amount of unfunded liability is directly related to the negotiated wage increase. Therefore, the higher the wage increase, the greater the unfunded liability expense, and the higher the cost to the Postal Service. For example, it might be necessary to negotiate a wage package which offsets this higher

expense or to negotiate other types of money payments which would not cause a corresponding increase in the unfunded liability expense. Failure to accomplish this objective would result in increased cost for postal services to our customers.

- Q. Does the Board of Governors support the proposal to increase the payment of unfunded liability or do the Governors support any similar proposal? Please be specific by pointing out the basis for such support?
- A. The Postal Service is very much an integral part of the United States Government and, as such, must participate in government-wide efforts to address major public concerns. This Board is fully supportive of the Administration's deficit reduction program.



AMERICAN MAILERS

100 american way

detroit, michigan 48209

(313) 842-4000

June 12, 1985

The Honorable Representative William D. Ford
239 Cannon House Office Building
Washington, D.C. 20315

Dear Congressman Ford:

Traditionally third class and third class bulk mail, more recently termed business mail, has returned a profit to the U.S. Postal Service.

Mr. McKean, Chairman of the Postal Board of Governors has suggested, concerning third class mail, that because of the large volume of mail being processed a price increase would reduce this volume. Rather than "look into our pricing structure", Mr. McKean would do well to consider the following.

Increasingly the concept of "marriage mail" is diluting the third class mail revenues. Marriage mail allows the combining of several different business pieces into one cover. This cover (also an advertising piece) is label addressed to the cover piece or to a detached card that accompanies the pieces to be mailed.

It is my opinion, that marriage mail is a ploy used to sell third class mail using discount postage. Marriage mail should be identified as Discount Postage Mail.

The average weight of one piece of marriage mail sent to a household address with a cover and two inserts is approximately 3 ounces (2.9328 oz.). The average postage cost is \$28.30 (this is the charge calculated at \$2.83 per 1/10 ounce increments) per thousand pieces mailed. A single piece mailing not in marriage mail package, is currently paying \$83.00 per thousand pieces mailed, up to the weight limit of 3.4947 ounces per piece mailed. However the average business mailing piece is about 1 1/3 ounces, for many businesses the upper weight limit (without paying additional postage) of 3.4947 ounces per piece is meaningless.

55-628 261

BEST COPY AVAILABLE.

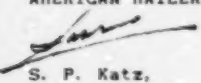
It is my contention that the U.S. Postal Service will lose approximately \$34.00 per thousand in revenue by allowing marriage mail to compete with single customer business mail. If the marriage mail piece were limited (without paying additional postage) to 2 ounces then all business mail would be able to equally contribute to the third class revenue.

The Postal Service is also placing an additional burden on all business mail by exacerbating a poor mail delivery schedule by publishing in the Postal Bulletin that "second class mail now has priority in distribution and delivery over bulk business mail". This is being interpreted as all second class mail not only time valued dailies or weekly but also non time valued monthly papers.

I am not trying to be facetious or waste your valuable time but my company and others in the mailing business plus several thousand customers nationwide are willing to pay our fair share of the third class mailing burden, but we feel that the burden must be equally distributed. I sincerely hope that because third class mail has been so successful for the business community and profitable for the U.S. Postal Service that we are not priced out of business. If this happens then third class mail can join first and second class in the loss column of the U.S. Postal Services year end revenue report.

Sincerely,

AMERICAN MAILERS



S. P. Katz,
President

SPK/jan

cc to: Mr. Paul Carlin, Postmaster General

BEST COPY AVAILABLE

STATEMENT OF CONGRESSMAN DON YOUNG
RANKING REPUBLICAN,
SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION

JULY 9, 1985

I WOULD LIKE TO JOIN THE CHAIRMAN AND MY COLLEAGUES IN WELCOMING CHAIRMAN MCKEAN AND THE POSTAL BOARD OF GOVERNORS TO THE SUBCOMMITTEES TODAY. I LOOK FORWARD TO A VERY PRODUCTIVE HEARING.

IN OUR EARLIER HEARING, THE SUBCOMMITTEES HEARD FROM POSTMASTER GENERAL CARLIN. MR. CARLIN WAS VERY FRANK IN HIS ASSESSMENT OF THE PROBLEMS FACING THE POSTAL SERVICE, AND OUTLINED STEPS THAT HE WAS TAKING TO CONTROL THEM. I AM INTERESTED TODAY IN THE BOARD'S ASSESSMENT OF THE PROBLEMS FACING THE POSTAL SERVICE AND THE STEPS THAT IT BELIEVES MUST BE TAKEN TO CORRECT THE SITUATION.

IN CLOSING, I WANT TO SAY THAT I LOOK FORWARD TO JOINING THE BOARD IN ANCHORAGE FOR THEIR MEETING NEXT MONTH. I KNOW YOU'LL FIND THAT DESPITE A FEW GROWING PAINS, THE POSTAL SERVICE PROVIDES EXCELLENT SERVICE TO MY VAST STATE.

OVERSIGHT ON OPERATION OF U.S. POSTAL SERVICE

THURSDAY, OCTOBER 3, 1985

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES AND THE SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE,

Washington, DC.

The subcommittees met, pursuant to call, at 10:30 a.m., in room 310, Cannon House Office Building, Hon. Frank McCloskey (chairman of the Subcommittee on Postal Personnel and Modernization) presiding.

Mr. McCLOSKEY. Time is going by, so why don't we start? I would expect that within a matter of minutes we will have Mr. Horton, the ranking member on the Subcommittee on Postal Operations and Services. I am also told that Chairman Leland, who is scheduled to chair this overall meeting, should be here before too long.

I have a formal statement, which I won't go into too much, to submit for the record. But very briefly, as we all know, this is a joint hearing of the Subcommittee on Postal Operations and Services and also the Postal Personnel and Modernization Subcommittee. We are all very interested in the ongoing saga of the postal deficit. In recent days we have heard that the Postal Service is doing a very good job of getting its ship in order in that some estimates say that the deficit will be for this year somewhere in the area of \$200 million, rather than the half billion dollars plus previously estimated. I think it is obvious the Postal Service is concerned and doing good work. But we also see as late as this morning in the Washington Post where a major columnist, Jack Anderson, says an earlier rate increase is coming and indeed we are still looking at a \$500 million deficit. So before too long we would like to get to the bottom of this.

[The statement of Mr. McCloskey follows:]

STATEMENT OF CONGRESSMAN McCLOSKEY

Throughout this fiscal year, I have been concerned with the size of the U.S. Postal Service (USPS) deficit. Although recent accounting period figures have shown that the growth of the deficit is slowing, the final figure will still be large. I believe that if the USPS is to continue to provide efficient, cost-effective service to the American people, this financial problem must be dealt with both in the short and long terms.

In the first two joint oversight hearings held this year, I and many of my colleagues on this Committee expressed our concern over steps being taken to solve the immediate financial crisis. Since that time, the Postmaster General has taken action which seems to have stemmed the deficit tide. Today, we will hear testimony from the head of the Postal Rate Commission (PRC), the independent body set up

under the Postal Reorganization Act to act as a rate-making expert for the USPS. I believe the PRC has a primary role in ensuring the future financial stability of the USPS.

There are several areas I would like to explore in this hearing. One is the efficiency of the rate-making process itself. Clearly, delay in implementing new rates will have a detrimental effect on the ability of the USPS to remain financially solvent. This situation occurred in the most recent rate case. Information transmitted to the PRC by the Postal Service is time-sensitive. Financial conditions and projections can change if the decision-making process is too long. I know that the USPS attempts to take this time factor into account when initial rate requests are made, but I would like to get the opinion of the Commissioners on whether a streamlining of the rate-making process is necessary.

Also with us today is a representative from the General Accounting Office (GAO). I am especially interested in the GAO's analysis of the prospects for increased mechanization in the Postal Service. I believe the future financial stability of the USPS depends to a great extent on increased utilization of capital. A recent decision by USPS management has cemented a commitment to multiline optical character reader technology. This commitment, however, will entail a large initial capital investment. I am very concerned that this investment be recouped in the coming fiscal years and plan to keep a close watch on the progress of the technology. I would be interested in any comments from the GAO in this particular area.

In all, I would like to reiterate my concern with stabilizing the financial situation of the Postal Service while retaining high levels of service. In recent years, long-term planning seems to have been somewhat off the mark in areas of vital importance to financial decision-making. It is crucial and necessary to turn that trend around.

Mr. McCloskey. We have I believe the entire Postal Rate Commission here today, with the testimony coming from Janet Steiger, and later on in the morning we will have Mr. William Anderson, Director of the General Government Division of the General Accounting Office.

So with that, I would like to welcome the Chairman of the Postal Rate Commission, Ms. Steiger, and ask you for your prepared or formal statement, and proceed as you see fit.

STATEMENT OF JANET STEIGER, CHAIRMAN, POSTAL RATE COMMISSION, ACCOMPANIED BY HENRY R. FOLSOM, VICE CHAIRMAN; JOHN W. CRUTCHER, COMMISSIONER; AND PATTI BIRGE TYSON, COMMISSIONER

Ms. STEIGER. Good morning, Mr. Chairman. Thank you. We are very pleased to be here.

With your permission, I have summarized our rather lengthy testimony to present this morning and will submit the full text for the record, if that is acceptable to you, sir.

I would like first to introduce my colleagues. It is a pleasant chore for me. They are a distinguished group, and it is an honor to serve with them.

Our newest member, Patti Birge Tyson, on my far right, is an attorney. She has extensive experience in the legislative and executive branches, and she served as an aide to three very distinguished Members of Congress, and as chief counsel and staff director of the House Rules Committee, Subcommittee on Legislative Process. Her last post was as executive assistant to Secretary Margaret Heckler.

Bonnie Guiton, who has an unavoidable dentist appointment this morning I am sorry to say, and sends her regrets, cannot join us. But she, too, has a distinguished background with broad experience in academia and in the private sector. She was recently awarded a doctorate in education from the University of California, and

served as vice president and general manager of Kaiser Center, Inc., in Oakland.

These women join two very distinguished veteran members, John Crutcher and Henry Folsom.

Henry, on my right, has in addition to a full career in engineering for du Pont de Nemours, held the position of adjunct professor in urban affairs and public policy at the University of Delaware and served 19 years in elected office, including the post of county executive of Delaware's largest county.

On my left is John Crutcher, former two-term Lieutenant Governor of Kansas, who has broad experience in State and National legislative and executive branches. He was the director of the Bureau of Outdoor Recreation at Interior and administrative assistant to Senator Dole. In addition, John holds the rank of Navy captain (retired).

As I have said, this is a distinguished group and one I am proud to serve with.

You asked, Mr. Chairman, for comment on the financial position of the Postal Service. And perhaps the key question is why the Postal Service is facing deficits in the same year it received a rate increase of more than \$2 billion. To answer this question, we evaluate the rates, the volumes and the costs of the Service, and the relationship among these three major determinants. We can best do this through a comparison of the current actual experience, as we know it now, with forecasts developed in the 1984 rate proceedings.

We often hear Postal Service officials discussing, by the way, how some operating statistic is "above plan" or "below plan." We can't make those comparisons because we don't know either the details of the plan or how it is derived.

But regarding the plan, let's take a concrete example stemming from an extremely important issue in our discussion here this morning. We don't know what rate change implementation date the Postal Service plan assumed. This is important because, even though the last rate case assumed that new rates would be in effect for the full fiscal year 1985 test year, the new rates recommended and adopted were not put into effect until 4½ months into fiscal year 1985. We can track the effect of the timing by the Board of Governors of that implementation on revenue figures that emerged from the last rate case.

Postponement of the rate increase to a point over one-third of the way through the test year meant less net revenue than implied by the Postal Service's proposals and \$900 million less net revenue than was contemplated by our decision in docket R84-1. I will discuss this a little bit later in more detail. But let's turn to the current financial picture and the components of that picture.

Briefly, we issued a detailed recommended decision in the rate case on September 7, 1984, and the Governors accepted our recommendations in full, including our rates. It is most useful this morning, in light of today's topic, to look at the recent history of volumes and costs. Volumes are one key to the Service's financial status since they have a significant impact on costs and revenues. And in order to gauge the volume changes occurring since our decision and to judge the accuracy of our projections, we have taken three quarters of actual data and measured them against our own

projections, as well as against Postal Service Witness Tolley's projections for the same three quarters. Modifications made in those volume predictions of Dr. Tolley's are fully described in the testimony, and I won't detail them here. Suffice it to say that those modifications involved adjustments for more recent data and computation errors.

Our three-way comparison of the figures is informative, Mr. Chairman. For the time period spanning quarters I, II, and III of 1985, the Commission's projection in R84-1 leads to a volume forecast of 98.6 billion pieces. Over the same time period the Postal Service's projection would have totaled 98 billion pieces. The actual data for the first three quarters of 1985 show volumes of 98 billion pieces. The Commission therefore overestimated aggregate volumes by only 0.6 of 1 percent and estimated total revenues at only 0.1 of 1 percent, or \$24 million less than the actual results we now see. The Service's aggregate volume estimate was low by 7.3 percent in the case they presented to us in 1984.

Now like any aggregation of individual estimates a prediction of total volume is likely to have a smaller error than any of the individual component estimates. Looking at the classes with the heaviest volumes, actual volumes for first class are 3 percent higher than the Commission's projection and 6 percent higher than the Service's. Actual third class volume is 5 percent lower than the Commission's estimate, but it is still 14 percent above the Postal Service's estimate.

I have given you the first three-quarters' results because it is only for these quarters that we have figures from the Service's quarterly volume report called the Revenue Pieces and Weight System. In addition, however, we have done some work with the three available quarter IV accounting periods. These figures may not be as reliable as the completed RPW reports, but they tend to show that the Commission's volume estimates continue to be substantially accurate.

Now apart from the accuracy of the PRC's projections, volumes are up appreciably from 1984. For example, actual total first-class volume is up 6.4 percent and total third-class volume is up 8.7 percent.

Let me touch briefly on two additional volume matters. Express mail volumes are below forecasts. We haven't seen a market analysis explaining why this has happened, but recent Service reports indicate that express mail's on-time performance has been disappointing. Both the Governors and Postal Service management have expressed concern with this problem, and have committed the Postal Service to improving express mail service. It is hoped that a return to previous levels of performance will generate a resurgence in express mail volume growth.

It is of further interest to note that second-class volumes are up 10 percent through the third quarter. They are up over 13 percent in the third quarter alone. I should add that this is a class that normally has a rather flat pattern of volume growth, so these are rather surprising figures. Postal Service figures for quarters I and II show a 30-percent volume increase in the congressionally subsidized in-county subclass. Recently released quarter III data indicate accelerating growth for publishers' mail volume and lesser in-

creases in revenue despite the intervening rate increase. This suggests at least a continuation of the rapid volume increase in within-county mail. That will be a very interesting issue to review when final fiscal year 1985 statistics are available. Many so-called plus issues of newspapers travel at the in-county rate. And when expert observers review these figures it will also be of interest to see whether growth in in-county volume, if this turns out indeed to be the main phenomenon of second class, has any identifiable relationship to the rate of growth of carrier-route bulk third-class mail in general, and its quarter III decline in particular.

Summarizing our volume comparisons, we believe that the Commission's volume projection is acceptably accurate. With our greater volumes, we recommended a greater revenue requirement than the Service proposed. However, because not all costs vary with volume and the nonvariable costs were spread over more pieces, we were also able to recommend lower unit rates. Of course, we could not anticipate the Board's decision on the implementation date for the rates, which, as I noted before, was well into the test year. Were it not for that decision our rates would have generated sufficient revenues, not just to break even for the test year, but to generate a large surplus—over \$600 million. Even if new rates had not been put into effect in October 1984, but on January 1, 1985, the Postal Service would still have enjoyed approximately \$300 million more net revenue. This is very close to the Service's latest expected fiscal year 1985 deficit.

If the problem is not in volumes, and it seems not to be, then we must turn to costs for an explanation of what happened in recent months at the Postal Service. And in the cost area, we do see that some things didn't turn out as well as the Postal Service had expected.

One very significant cost is air transportation; over a third of the Service's purchased transportation expense. In this committee's July 16 hearing, Assistant Postmaster General Campbell estimated that the Service would spend \$137 million more than it had planned in fiscal year 1985, largely because of the new, deregulated air transportation environment.

Segment contracts were expected to be more economical for the Service than systemwide arrangements at so much per pound mile and the Service had hoped to arrange these segment contracts for over 92 percent of its air transportation needs. As it stands, only about 40 percent of the mail is covered by segment contracts.

Now the Service may surmount these problems, but it may have to break some new ground in doing so. These problems with their air transportation costs are not temporary aberrations that are going to disappear overnight.

Another cost problem has arisen in second class where the decision to give all mail preferential delivery service has had, apparently, unanticipated effects. This decision was made it seems sometime in early 1984. The Commission learned about it in March, when it was announced, and full implementation was targeted for January 1 of this year, 1985.

The Service evidently believed at that time that there would be no substantial net cost consequences from this change. Now while we have no published estimates of what it has cost the Service,

senior management officials have implied that the cost increase is significant. Unfortunately, the change to all-preferential service has also tended to slow down second-class delivery. There has been speculation that the Service may modify or move away from the all-pref concept.

Here the Postal Service may be able to improve matters by its own efforts. Unlike the air transportation problem, the difficulties in the configuration of second class are internal to the Service and they are, therefore, within its power to correct.

One area in which the Service seems to have made considerable progress in moderating costs is in overtime pay. During much of calendar 1984 and early 1985, the proportion of work hours at overtime rates approached double-digit levels. Today, it has come down to about 5 percent, although for fiscal year 1985 through accounting period 12, it still averages 8.3 percent. Translated into the overtime versus total hours measure used in the rate case, this equates to 7.2 percent, which is substantially higher than the Postal Service's 5.2-percent estimate presented in the rate case and used by us in our decision. The higher overtime usage has so far cost the Service an extra \$164 million in fiscal year 1985.

We can also estimate the magnitude of the fiscal year 1984 retroactive payments, which reach back to the July 1984 expiration date of the old contract from 1981. These are payments that the Service found itself owing when the arbitration award was finally made last December, and they appear to amount to \$90 million in additional bargaining-unit labor cost for fiscal year 1985. Since the Postal Service has a policy of matching these changes for non-bargaining-unit employees, we have to add on another \$25 million. This is, arguably, an impact on fiscal year 1985 cost which the Service could not have predicted before the award was issued. And in the nature of the case, it is a nonrecurring event; it will not happen again next year.

In summary, it is fair to say that the deficit, now reduced from estimates of between \$500 to \$700 million to around \$250 million, is largely a function of costs; in particular, costs which were not knowable in the R84-1 rate proceeding. Given the volumes estimated by the Commission, which, as we have seen, are materializing, and recognizing that the postponement of the new rates was a Board of Governors' prerogative, it becomes apparent that excess costs are behind the Service's recent financial stresses, just as cost-control measures seem to have reduced those stresses to a more manageable level.

I will go out on a limb now before concluding and give you a prediction on rates. It wasn't very long ago that many "postalologists," most of the people in this room as a matter of fact, were predicting a filing in February or March of 1986. That picture has now changed dramatically. Cost-cutting measures seem to be taking effect. As I mentioned earlier, fiscal year 1985 was not a full year of new rates, but that difficulty in the nature of things will not recur.

Finally, the Governors have decided to borrow for capital projects. At the September meeting, they approved a loan of up to \$1 billion for fiscal year 1985. A similar policy, according to their 5-year business plan, is expected to continue in future years. This

should improve the Service's cash position, which is a very important determinant of rate case timing. It is now possible to speculate that there will be no need for new rates before the beginning of fiscal year 1988 at the earliest.

That concludes my statement as regards postal finances. I know your time is limited, and so I am not going to dwell on the remainder of the testimony which deals with the ratemaking process. Happily, I am able to say that is in good shape.

I do want to recognize the cooperative efforts the Board and the Postmaster General are making with us to ease the information problems we have had in the past and to increase the ease with which we can interchange information.

If there are any questions, the Commission stands ready to respond, Mr. Chairman.

Mr. McCloskey Thank you, Chairman Steiger.

[The statement of Ms. Steiger follows:]

STATEMENT OF JANET D. STEIGER
CHAIRMAN, POSTAL RATE COMMISSION
Before the Subcommittees on
Postal Operations and Services,
and Postal Personnel and Modernization,
Committee on Post Office and Civil Service,
United States House of Representatives
(October 3, 1985)

In your recent letter regarding this hearing, you asked for comment on the financial posture of the Postal Service. Perhaps the key question is why the Postal Service is facing deficits in the same year it received a rate increase of more than \$2 billion. To answer this question, we must evaluate the rates, volumes and costs of the Service, and the relationship among these three major determinants of the Postal Service's finances. We can best do this through a comparison of the current actual experience of the Service with the forecasts developed in the 1984 rate proceedings before our Commission.

We often hear Postal Service officials discussing how some operating statistic is "above plan" or "below plan." We cannot make these comparisons, because we do not know either the details of the plan they refer to nor how it is derived. It was not before us in the rate case.

Regarding the plan, let's take a concrete example stemming from an issue that is extremely important in this discussion. We do not know what rate-change implementation date the Postal Service's plan assumes. This is important because, even though the last rate case (including the Service's evidence, as well as that of other parties) assumed the new rates would be in effect for the full FY 1985 test year, the new rates recommended and adopted in it were not put in effect until four and a half months into FY 1985. But we can track the effect of that timing decision by the Board of Governors on the revenue figures that emerged from the last

rate case. Postponement of the rate increase to a point over one-third of the way through the test year meant less net revenue than implied by the Service's proposals, and \$900 million less than contemplated by our decision in Docket R84-1. I will return to this topic later on. Let me now turn to the components of the current financial picture, starting with rates.

Briefly, we issued a detailed Recommended Decision in the rate case on September 7, 1984, and the Governors accepted our recommendations in full. Given our task of reviewing the Service's financial situation, it does not seem useful to discuss the specific rates here, except to repeat that the Governors and the Commission were in agreement on the rates and that the effective date for the rates -- as established by the Board -- was February 17, 1985.

It is more useful, in light of today's topic, to look at the recent history of volumes and costs. While also subject to considerable scrutiny in our Recommended Decision, both volumes and costs are dynamic in nature, as opposed to rates which do not fluctuate once they are decided upon.

Volumes are one key to the Service's financial status, since they have a significant impact on costs and revenues. In order to gauge the volume changes occurring since our Decision and to judge the accuracy of our projections, we have taken three quarters of actual data and measured them against our own projections, as well as against Postal Service witness Tolley's projection for the same three quarters. Our analyses of both the Commission's and Dr. Tolley's projections were made assuming values before the rate changes for the first five accounting periods of FY 1985, and values after the rate changes for the remainder of FY 1985.

The modifications we made to the Service's volume estimates are worth describing since the Commission adjusted only the projections, and not the Tolley model itself. Basically, we made four revisions. First, we recomputed the net trend. The model uses this device to reflect the effects

of variables other than measured variables. Again, we did not change Dr. Tolley's model but simply updated the years that were used to compute net trend in order to take account of more recent data -- and specifically, to adequately reflect the current presort discounts. It is these categories that were experiencing the greatest growth, and it is the corresponding classes where we revised net trend. Thus, net trend was recomputed by the Commission for First-Class letters, First-Class cards (except postal cards), third-class bulk regular mail and third-class nonprofit mail.

The second modification was in third-class bulk regular mail volumes. Witness Tolley had added a one-time five percent increase in the volume for this mail to account for non-recurring factors such as the increased growth of mail from multiple advertisements sent in one mailing. Our observations indicated that third-class bulk regular would continue to grow at high rates. Consequently, we decided that the best course was to estimate volume for this mail using the same method as that used by Dr. Tolley for other mail, and to account for influences beyond measured variables through the net trend.

The Commission also advanced the base year for First-Class and third-class mail volume estimates to include 1983, quarter three, to 1984, quarter two, rather than using Dr. Tolley's base year of 1983. We made this adjustment to take account of the most recent volume data available. By so doing, we shortened the time from the base year to the test year, which tends to increase the accuracy of the forecasts.

Finally, we note that we reestimated Express Mail volumes using the same method that witness Tolley used, but correcting an inadvertent computational error. Our focus, however, is on First-Class and third-class mail, because the impact of volumes is concentrated in those two classes. These two classes make up 80 percent of the total revenue from domestic mail, fees, and special services.

Having described the nature of the Commission's adjustments, we turn to a three-way comparison of the Commission's volume forecast, the Postal Service's, and the actual data. The figures are informative. For the time period spanning quarters one, two and three of 1985, the Commission's projection in R84-1 leads to a volume forecast of 98.6 billion pieces. Over the same time period, the Postal Service's projection would have totaled 90.8 billion pieces. The actual data for the first three quarters of 1985 show volumes of 98.0 billion pieces. The Commission overestimated aggregate volumes by only six-tenths of one percent and estimated total revenues at only one-tenth of one percent, or \$24 million, less than actual results. The Service's aggregate volume estimate was low by 7.3 percent.

Like any aggregation of individual estimates, a prediction of total volume is likely to have a smaller error than any of the individual component estimates. Looking at the classes with the heaviest volume: actual volumes for First-Class are 3 percent higher than the Commission's projection and 6 percent higher than the Service's. Actual third-class volume is 5 percent lower than the Commission's estimate, but is 14 percent above the Service's estimate.

I have given you the first three quarters' results because it is only for those quarters that we have figures from the Service's quarterly volume report -- the Revenue Pieces and Weight system. As a matter of interest, we have done some work with the three available Quarter IV accounting periods. These figures may not be so reliable as the completed RPW reports, but they do tend to show the Commission's volume estimates as continuing to be substantially accurate.

Apart from the accuracy of the PRC's projections, volumes are up appreciably from 1984. For example, actual total First-Class volume is up 6.4 percent and total third-class volume is up 8.7 percent.

Let me mention two additional volume questions. First, I would like to mention that Express Mail volumes are below forecasts. We have not seen a market analysis explaining why this has happened, but recent service reports indicate that Express Mail's on-time performance has been disappointing. Both the Governors and Postal Service management have expressed concern with this problem. They have committed the Postal Service to improving express service. It is hoped that a return to previous levels of performance will generate a resurgence in Express Mail volume growth.

It is of further interest to note that second-class volumes are up 10 percent through the third quarter (over 13 percent in the third quarter alone). Postal Service figures for quarters 1 and 2 show a 30 percent volume increase in the Congressionally-subsidized in-county subclass. Recently-released quarter 3 data -- for which we do not have underlying detail -- indicate accelerating growth for publishers' mail volume, and a lesser increase in revenue (despite the intervening rate increase). These facts, together with the first two quarters' growth figures just quoted, suggest at least a continuation of the rapid volume increase in within-county mail. This will be a very interesting issue to review when final FY 1985 statistics are available. Many so-called "plus issues" of newspapers travel at the in-county rate. When expert observers review these figures, it will also be of interest to see whether growth in in-county volume -- if that turns out to be the main phenomenon in second class -- has any identifiable relation to the rate of growth of carrier-route bulk third-class mail in general, and its quarter 3 decline, in particular.

Summarizing our volume comparisons, we believe that the Commission's volume projection is acceptably accurate. With our greater volumes, we recommended a greater revenue requirement than the Service proposed. However, because not all costs vary with volume, and the nonvariable costs were spread over more pieces, we also were able to recommend lower

unit rates. All our computations were based on a test year of FY 1985. We, of course, could not anticipate the Board's Decision on the implementation date for the rates which, as I noted before, was well into the test year. Were it not for that decision, our rates would have generated sufficient revenues to break even for the test year. Even if new rates had not been put in effect in October 1984, but only on January 1, 1985, the Postal Service would still have enjoyed approximately \$300 million more net revenue. This is close to the Service's latest expected FY 85 deficit.

If the problem is not in volumes, as it seems not to be, then we must turn to costs for an explanation. In the cost area we do see some things not turning out as well as the Postal Service had expected.

One very significant cost is air transportation. It is over a third of the Service's purchased transportation expense. In this Committee's July 16 hearing, APMG Campbell estimated that the Service would spend \$137 million more than it had planned in FY85, largely because of the new, deregulated air transportation environment.

For example, he reported relatively little success in arranging segment contracts (where the Service purchases a block of capacity between defined points, on a guaranteed basis). These contracts were expected to be more economical than systemwide agreements at so much per pound-mile, and the Service hoped to arrange them for 92% of its air transportation needs. As it stands, only about 40% of the mail is covered by segment contracts. The carriers, evidently, are not agreeing to provide X capacity at Y frequency between two designated points for two years, evidently because they are now in a competitive environment. In the past, under regulation, there may have been no real possibility of a carrier's bettering or protecting its position by shifting times, frequencies, or cities served. A Postal Service commitment to pay for, say, two tons of mail transportation (whether the mail was tendered or not) on a

flight the carrier was pretty well committed to making anyway, was attractive. Today, perhaps, the air carrier looks at the downside of the USPS contract: it may be locked into flying between A and B for the next two years, when the plane could be more profitably operated between C and D.

I have dwelt somewhat on these issues because -- unlike some other financial worries the Service may be experiencing -- I think they are now built into the system. That does not mean the Service will not surmount them, but it may have to break some new ground in doing so. They are not temporary aberrations that will disappear in a year or two.

Another cost problem has arisen in second class, where the decision to give all mail preferential delivery service has had apparently unanticipated effects. This decision was made, it seems, in early 1984; we learned about it in March, when it was announced. Full implementation was targeted for January 1, 1985. The Service evidently believed at the time that it would have no substantial net cost consequences. While there are no published estimates of what it has cost the Service, senior management officials have implied that the cost increase is significant. Unfortunately, the change to all-preferential service also has tended to slow down second-class delivery, and there has been speculation that the Service may modify or move away from the all-pref concept.

Here the Postal Service may well be able to improve matters by its own efforts. Unlike the air transportation problem, the difficulties in the new configuration of second class are internal to the Service and within its power to correct.

One area in which the Service seems to have made considerable progress in moderating costs is in overtime pay. During much of calendar 1984 and early 1985, the proportion of work hours at overtime rates approached double-digit levels; today, it has come down to about 5 percent, though for FY 85 through accounting period 12 it averages 8.3 percent. Translated into the overtime versus total hours

measure used in the rate case, this equates to 7.2 percent. This is substantially higher than the Postal Service's 5.2 percent estimate presented in the rate case and used in our decision. The higher overtime usage has so far cost the Service an extra \$164 million in FY 85. Overtime is an especially important cost to control, because the 1984 labor settlement creates higher penalty overtime pay for a number of work-scheduling situations. That is an important reason to curtail overtime hours, and the Service believes -- with some reason, evidently -- that it has brought them under control.

Part of the reason for this seems to be the addition of a large contingent of new employees in 1984 and 1985. Many of these -- we do not know how many -- were hired under the new wage structure, and so are beginning at a lower salary than they would have received under the old contract. We are not able to estimate the tradeoff between additional salaries and benefits, on one hand, and savings in base pay (for the new hires) on the other. The natural supposition would be that as the new employees learn the job, their efficiency and productivity will increase. On the other hand, during the transition involved in integrating these new hires, total paid employees (and thus total workhours) may have grown faster than contemporaneous volume increases would imply.

We can estimate the magnitude of FY 84 retroactive payments -- reaching back to the July 1984 expiration of the 1981 contract -- that the Service found itself owing when the arbitration award was made last December. These appear to amount to \$90 million in additional bargaining-unit labor cost for FY 1985. (The Postal Service has a policy of matching these changes for non-bargaining-unit employees, which adds another \$25 million.) This is, arguably, an impact on FY 1985 cost which the Service could not have predicted before the award was issued. In the nature of the case, it is a nonrecurring event.

In summary, it is fair to say that the deficit -- now reduced from estimates of \$500-700 million to around \$250 million -- is largely a function of costs: in particular, costs which were not knowable in the R84-1 rate proceeding. In that case, the Commission adjusted the Postal Service's cost submissions for known changes -- a reasonable procedure, given the time lag between the Service's putting together of its case and the Commission's deciding it -- but otherwise accepted the Service's cost testimony substantially as presented. Other parties presented proposals and evidence looking to an outright reduction of the Service's estimates, but they were not adopted. Given the volumes estimated by the Commission, which as we have seen are materializing, and recognizing that the postponement of the new rates was a Board of Governors' prerogative, it becomes apparent that excess costs are behind the Service's recent financial stresses -- just as cost-control measures seem to have reduced those stresses to a more manageable level.

Along with a review of the Postal Service's financial picture, you have asked for a discussion of the postal ratemaking process. I am happy to report that it is in good shape.

Ratemaking and mail classification depend on current, accessible and intelligible information. What is encouraging today is the promise of broad cooperation in making this information reasonably available. The Governors have taken a direct and very active role in bringing it about, and we have also been working with senior Postal Service management in a number of areas.

For example, we have just arranged to get some valuable information about the Postal Service's Congressional budget submission. This makes it easier to provide financial analyses of the Postal Service. Again: my legal adviser and the Service's Deputy General Counsel have been meeting for some months to discuss possible additions and revisions to our

program of periodic reports by the Postal Service. These discussions have been very productive.

Of course, there are still questions outstanding about information; one particularly pervasive one is the difficulty of access to data that may be stored only in a computer. On occasion, it has been suggested that such data are "nonexistent" or "unavailable." I have to disagree with any such suggestion. That computerizing a particular process eliminates the need for layer upon layer of paper worksheets in that process itself may be true. But there are many instances where the PRC, or the parties litigating before it, or other interested observers like these subcommittees, may want to see how the process was carried out. If the intermediate data really cannot be printed out and shown to such observers, and the manipulations and modifications made to it exhibited on computer-generated workpapers, then I do not see how the result of the process can ultimately command confidence.

In a way, this is an old problem for us. We have met with it in our formal proceedings, where we have been receiving a growing amount of evidence based on computer studies. Over the last few years we have been updating a rule governing the admissibility of computer-based evidence. It rests on the premise that you cannot base findings of fact on the output of a "black box" -- a computer program or study which is unexplained and cannot be replicated and tested by interested parties. The courts require that computer-based evidence have a foundation in the form of documentation allowing that kind of analysis. We are following their lead. We now have pending a rulemaking docket in which we are considering refinements to our computer evidence rule. The necessity for some revision was suggested by an unfortunate occurrence in the last rate case, where despite a variety of attempts at accommodation we could not obtain from the Service sufficient documentation of its Mail Processing Cost Model and

had to strike testimony which relied on that Model for its basic numbers.

We do not want to have to forego useful evidence. Our job is to make informed decisions, and to give serious consideration to all costing and rate proposals that have a legitimate basis in provable fact. To diminish the record because some evidence offered for it does not meet threshold standards of reliability is counterproductive.

Finally: what is going on right now in the postal rate and classification process? Let me give you a summary of where we stand, as of this morning, in our current cases.

We have two very significant ones before us, both raising some very basic issues about second-class mail.

The first of these complaint cases was filed by Advo System, which as you know is a very large distributor of third-class advertising mail. Advo and companies like it compete with newspapers of various kinds for advertising business. Advo has told us that some papers are using the relatively low second-class rates for material -- so-called "plus issues" -- that it argues may not really belong in a class designed for news and information, or at least should be entered as a separate publication from the parent newspaper. This is significant because many plus issues are sent to nonsubscribers, generally in targeted market areas. They contain both editorial and advertising matter and are treated by the publisher as issues additional to the regular daily ones. Entry of the plus issue as a separate publication would limit the number of nonsubscriber copies that could be sent.

The parties to this case include both third-class and second-class mail user groups, as well as the Postal Service and our Office of the Consumer Advocate. They have been very cooperative and diligent in trying to arrive at an agreement, at least on the underlying facts.

The second case arises from a complaint filed by Tri-Parish Journal, Inc., a Louisiana publisher of a free-circulation weekly paper called the River Parishes Sun.

Basically, the complainant is urging us to recommend changing the rule that to be eligible for second class a publication must have a list either of paid subscribers, or of requesters who have signified that they want to receive a free-of-charge publication. The complainant raises constitutional issues -- indeed, the case began with a suit in the United States District Court, largely on constitutional grounds. There are three other such cases pending in Federal courts -- two awaiting District Judges' decisions, and one on appeal in the Sixth Circuit from a decision holding the subscriber rule unconstitutional. Both we and the Postal Service have been defendants in all these cases. The Postal Service's main interest has been in defending the rule on its merits, while ours has been to avoid the situation in which eligibility for second-class entry could vary from one judicial district to another. We are perfectly prepared to consider the merits of the rule and recommend changes in it if the record shows us we should. The important thing is to have the process centralized -- and, as we have argued, to do so by having the cases heard at the PRC -- so that the rules are the same for everybody.

We have held hearings in the Tri-Parish case, with testimony from the owner of the Tri-Parish Journal firm, from representatives of other print media, and from a Presiding Officer's witness who gave some useful historical background on the subscriber rule. To be usable, such information has to be in the record and subject to questioning by participants. So we engaged Dr. Richard Kielbowicz, a historian and media expert at the University of Washington, to do a short research paper on the subject and take the stand, with our Consumer Advocate acting as his counsel, to discuss it with the parties. We believe this was a successful effort, and may do it again, if in future cases we find we need record information which the parties cannot fairly be expected to provide.

The next thing on the horizon, so far as we can see, is likely to be a new ZIP + 4 case. Postal management, as we

understand it, is working on a proposal which will be submitted to the Governors around the end of the year. Naturally, I cannot speculate on what it will contain or how we might view it. In that connection, though, I should mention the interchange we had with the Postal Service on its internal ZIP + 4 rulemaking. Our comments in that rulemaking centered on a "rerun" of our 1983 ZIP + 4 decision, showing the hypothetical results that would have emerged given the Service's new proposals on commingling and preparation. They were not very encouraging so far as cost savings were concerned. Of course, that was a hypothetical exercise and would not govern the result in a new case, with new evidence. Perhaps it will prove to have been helpful in focusing parties' attention on problem areas in the evaluation of costs and cost savings.

A few weeks ago we were called over to another committee to give a nontechnical explanation of our comments. The translation was not an easy one to do; the mail flows and the calculations discussed in the comments are rather involved. I have attached a copy of that explanation to my statement today.

Finally, I will climb further out on the limb and give you a guess as to the next general rate case.

It is not very long ago that many postalologists were predicting a filing in February or March of 1986.

The picture has now changed dramatically. Costcutting measures seem to be taking effect. As I mentioned earlier, FY 85 was not a full year of new rates -- but that difficulty, in the nature of things, will not recur. Finally, the Governors have decided to borrow for capital projects. At the September meeting, they approved a loan of \$1 billion for FY 85. A similar policy is expected to continue in future years. This should improve the Service's cash position -- a very important determinant of rate case timing. It is now possible to speculate that there will be no need for new rates before early FY 1988 at the earliest.

Mr. McCLOSKEY. Mr. Horton has a statement and, I believe, some questions.

Mr. HORTON. Thank you, Mr. Chairman.

I am pleased to join with you and other members of this committee for this hearing today. For me, oversight hearings with the Postal Service have been very informative and helpful. Because the Postal Rate Commission plays such an important role in the operation of the Postal Service through its rate-setting power, I am very anxious to hear and ask questions of the Rate Commission on these matters.

And, Chairman Steiger, I certainly welcome you. This is my first time as a member of the Post Office and Civil Service Committee. Although I have been in the Congress 23 years, I have just recently been assigned to this committee; and this, of course, is my first time to have the Postal Rate Commission appear before me. I am happy to meet each of you personally.

And I certainly want to welcome Ms. Tyson. I notice that you were just sworn in a few days ago, and congratulations. We are happy to have you. You have had a distinguished career here in the House in various capacities. Gillis Long was a very close personal friend of mine, and you served with him for a number of years. And you have worked with the Rules Committee, so you have got a pretty good knowledge of what goes on here at Capitol Hill. So we welcome you.

I am also interested that the General Accounting Office is going to be testifying a little later, and I certainly want to welcome Mr. Anderson when he arrives to give his testimony.

Mr. Chairman, I would ask unanimous consent to put the rest of my statement in the record at this point.

[The prepared statement of Mr. Horton follows:]

PREPARED STATEMENT OF HON. FRANK HORTON

Mr. Chairman, I am pleased to join you at this hearing today. For me oversight hearings with the Postal Service have been very informative and helpful. Because the Postal Rate Commission plays such an important role in the operation of the Postal Service, through its ratesetting power, I look forward to hearing its perspective on the deficit and operational problems facing the Service.

Chairwoman Steiger, welcome to this Subcommittee.

Also, the General Accounting Office plays an important oversight role for the Congress as a limited "watchdog" of Postal Service activities. Mr. Anderson, I look forward to your testimony and welcome you here today. Before we begin, I want to stress an area of particular interest to me will be the ability of both of your organizations to obtain timely and accurate information from the Service. I think this is essential to the operation of the Service and to the functions each of your organizations are charged to perform. The press has been filled lately with reports of misleading and confusing, as well as contradictory information, coming from the Postal Service. I would be interested to know your perspective on this and whether you believe a problem even exists with regard to obtaining information you need from the Service.

Once again, we appreciate your attending and we look forward to your testimony.

Mr. HORTON. I would like to ask a couple of questions, Chairman Steiger, of you. In your testimony you mentioned that there was an inability to comment on the Postal Service's plan because you hadn't seen the plan. Have you requested that from the Postal Department?

Ms. STEIGER. No, Mr. Chairman, to date we have not. This calendar year is the first time we have ever seen the plan publicly men-

tioned and used for comparison purpose with Postal Service statistics. I presume what it is is an internal management document that is used to forecast on an ontime basis the position of the Postal Service. We have never asked for it because it has never become a matter that was publicly used for comparisons.

I think it would be useful for us, if it is not stepping on management prerogatives to see it. But we have never asked for it before.

Mr. HORTON. Well, in your capacity at the Rate Commission you certainly have reasons to have this type of information, and other types of information. Do you have difficulty getting information from the Postal Service?

Ms. STEIGER. There is no question, Mr. Chairman, that until very recently this was a recurring problem. I want to stress that I think a new day is coming. I have been most gratified by the statement of the Governors recently in their September meeting that management should be directed to cooperate with us in production of the data that we find necessary for our job, and the efforts of Paul Carlin, who has worked very closely with me in attempting to set up a system whereby we can get over these hurdles of conflict with data.

Time will tell whether things are as rosy as I think they are. But certainly the attitude of both the Board and top management of the Postal Service is encouraging. And if that change occurs, it is going to be a most welcome one for this Commission, Mr. Chairman.

Mr. HORTON. Well, as a member of this committee and of this subcommittee, I think I could say that we are very much interested to make certain that you have adequate and full access to information which is necessary for you to make your decisions. And if you have any difficulty, I think it is important, No. 1, that the Congress knows that you are having that difficulty; and then second, that these subcommittees be informed, so that we can do what we can to be of assistance.

I think it is very important today, especially, with the great importance of your role in the ratemaking process, that you have access to all of the data and information that you need in order to make those kinds of decisions. The people who buy stamps are getting pretty close to a point where they are—in some instances already they are doing that—going out to other endeavors, industry and business, to get their mail delivered. This is creating a very serious problem, and it will continue to create a problem if these rates continue to go up and keep spiralling.

So I think it is important that you have all of the information that you need in order to make judgments. And you also have other responsibilities. So I don't think it is anything to be taken lightly. I hope that you and the other members of the ratemaking commission will accept that that is a heavy responsibility that you have and that you make whatever requests for information you need. And if you have difficulties, I think this committee should be informed with regard to that.

Do you have any comments on that?

Ms. STEIGER. I most appreciate that. The Supreme Court has made the same statement that it is incumbent upon the Postal Service to provide adequate data to allow us to do our job. GAO

recently did a study that came to the same conclusion. It stopped short of asking us to request legislative relief on this matter, but did suggest that it was incumbent on both the Chairman of this Commission and the Postmaster General to, let us say, reason together and find a way out of our impasse. That is the effort that is going on right now. As I said, I am very encouraged and I hope that it will bear fruit and end our problems.

I thank you for your interest. And if it does not, we will indeed be back, perhaps, looking for help.

Mr. HORTON. I noticed on page 13, and this has to do with the prognosis with regard to when and if a new rate increase will be required. You have indicated at the bottom of page 13 that it is now possible to speculate there will be no need for new rates before early fiscal year 1988 at the earliest. I was pleased to learn recently from the Postmaster General in public announcements that were made there would not be any need for a new increase in the next couple of years.

This committee had had some very deep concerns about the deficits and the problems of the Postal Service with regard to those unanticipated deficits. And I recall testimony from the Postmaster General indicating that that was a possibility. And I was very happy to see recently that they are getting a handle on that and that those deficits are not going to be as large as they anticipated. So they were making a prediction that we would not have another rate increase for a couple of years.

However, I read in the paper this morning, in the Jack Anderson and Joseph Spear column, that according to—and you are quoted in this, Mr. Crutcher. I don't know whether you are aware of this or not.

Mr. CRUTCHER. Yes, I have seen it.

Mr. HORTON. It says:

According to Postal Rate Commissioner John Crutcher, we will be paying 24 cents as early as January 1987 despite promises to the contrary by Postmaster General Paul Carlin. That is less than 2 years after February's introduction of the 22 cents stamp, a 10 percent increase that was supposed to cover the Postal Service's projected \$588 million deficit for 1986.

Perhaps you would like to comment on that. If you have a disagreement with the chairman, perhaps we could express that here now?

Mr. CRUTCHER. No, I have no disagreement with the chairman. As a matter of fact, when the Anderson reporter contacted me some weeks ago, the picture for the Postal Service was much more bleak.

Mr. HORTON. Oh, I see. In other words, this was based on prior information?

Mr. CRUTCHER. In part, at least. Yes. As a matter of fact, I didn't use the 24-cent figure at all. What I did was give him some figures and he extrapolated that to 24 cents.

Mr. HORTON. What is your view now?

Mr. CRUTCHER. Well, my view is precisely what the Chairman has just recounted to you.

Mr. HORTON. Is that the view of the other members of the Rate Commission?

Mr. Folsom.

Mr. FOLSOM. Yes, sir.

Mr. HORTON. Have you been on board long enough, Ms. Tyson, to say whether that is your view or not?

Ms. TYSON. I have great confidence in our Chairman.

Mr. HORTON. That is good.

Ms. STEIGER. We all hang together around here. [Laughter.]

Mr. HORTON. Well, I wasn't trying to show any disagreement between you, but I just wanted to hear from each of you that you agreed with that.

I am pleased, and I am sure other members are, that we are not going to be getting into any rate increases for another couple of years. And I think that is important for this reason. I would like to ask each of you to express your views with regard to the private express statutes. If there is anything that can undo the private express statutes, I think it is the problem of the increases in postal rates. In other words, as we drive the rate of the stamp up, people are going to be looking for other ways; and the most appetizing part, of course, is to get some of the more lucrative aspects of the Postal Service and leave the tough part to the Congress to solve. And frankly, I am not very much in favor of that.

So I would like to ascertain from each of you what your attitude is with regard to the maintenance and continuance of the private express statutes. And perhaps, Chairman Steiger, you might start off.

Ms. STEIGER. Yes, Mr. Chairman, I do not favor repeal of the private express statutes. But I hasten to add that if there comes a time when the Postal Service either cannot or will not provide cost efficient service, service that the public requires and needs, then that question will become moot. At that time the postal statutes involving the private express guarantee to the Postal Service will fall of their own weight, Mr. Chairman.

The Postal Service has in the past relaxed its authority over the private express statutes when it got into a situation that it could not provide the service required by the public. I am thinking of the relaxation for time sensitive mail. So I think that the critical aspect of that question you have already identified. To maintain the statutes, you are going to have to have continued control of costs and adequate levels of service.

Mr. HORTON. Well, I think it is a joint effort by all of us involved, starting with the Postal Service, of course, because they have the primary operational responsibility; the Board of Governors because they have the oversight function and because they are, if you will, board of directors of this corporation; you in the ratemaking process, I think you have got to turn over every stone that you can to make certain that you keep rate at the level, and I don't imagine it is possible, but if it would be possible, to sometimes say to the people who buy stamps we are thinking about reducing it. I mean that is an absurd thought I guess, but it would be very nice if there was such a trend to try to reduce the price of stamps. I don't think you would ever get them back to 10 cents, but it would be very nice if we could make some inroads. And then also the Congress has a responsibility, and that is why members of these two subcommittees in this oversight function are here doing what we can to make

certain that that rate is going to stay down so we can protect those private express statutes.

Mr. Crutcher, would you comment on that, too?

Mr. CRUTCHER. I would just like to associate myself with the remarks and attitudes expressed by the Chairman, adding only that, in my opinion, it is very important for this country to have a universal hard copy delivery system. I don't believe that you can have an efficient system unless you have the private express statutes.

Mr. HORTON. How about you, Mr. Folsom?

Mr. FOLSOM. I have no problem whatsoever operating with the private express statute as a document of public policy. I don't expect to be around if it is ever changed. I don't think it will be changed. If it is, I could live under that.

Mr. HORTON. How about you, Ms. Tyson?

Ms. TYSON. Well, I am a strong advocate of the congressional oversight process, and I don't think that the private express statutes should be exempt from congressional oversight. That said, I think that the private express statutes, any tampering with them would have very serious ramifications on universal mail service. I would be very reluctant to go into something like that without the most careful consideration and until all other options had been fully explored.

Mr. HORTON. Mr. Chairman, I have some other questions, but I see Chairman Mickey Leland has arrived and I am sure he would have some questions and probably wants to make a comment.

Thank you.

Mr. McCLOSKEY. I recognize the chairman for statements and questions.

Mr. LELAND. Thank you very much, Mr. Chairman. Mr. Chairman, I do have a statement, but I would like to defer that. With unanimous consent, I would like for it to be entered into the record.

[The statement of Mr. Leland follows:]

STATEMENT BY CHAIRMAN LELAND

Welcome to this third and last in a series of annual joint oversight hearings on the status of the postal system in the United States.

In previous hearings the Subcommittees on Postal Operations and Services and Postal Personnel and Modernization heard from the Postmaster General, and the Board of Governors of the U.S. Postal Service.

Today's witnesses are the Chairman of the Postal Rate Commission, Janet Steiger, and William Anderson, Director of the General Government Division of the General Accounting Office.

Chairman Steiger, as always, it is a pleasure to have you participate at our committee hearings.

Mr. LELAND. Let me ask you. You have stated, Chairman Steiger, that the Postal Service's unwillingness to share information about its management makes it difficult to determine if the Postal Service is effectively using its authority and responsibility. Can you give us some examples of their unwillingness to share this information?

Ms. STEIGER. Well, there is a long history. Perhaps the most glaring problem occurred in the last rate case when evidence was brought in based on a computer model, Mr. Chairman, an extraordinarily complex model and one that had potentially great useful-

ness. The parties complained that they could not replicate this model. We tried and tried to get the Postal Service to provide us with data that would allow the model to be replicated. That data was not forthcoming and eventually reluctantly, but nonetheless necessarily, we struck that black box, as we called it, from the portion of the rate case that depended upon it.

There have been other examples. We had a long and tedious colloquy in getting the backup figures for the budget submission. These are very important to us in assessing the Postal Service's financial position, where it predicts at least it will be. That matter has been resolved.

And as I said earlier, I am extremely pleased and very hopeful of the results that will come from the cooperative efforts being displayed by the Postmaster General and by his Board of Governors. I do think a new era is dawning, and I remain hopeful that this type of conflict will be a thing of the past.

Mr. LELAND. You recently called for a change in the law which allows the Board of Governors to reject, without challenge, any PRC recommendation. How and why would you like to see this law changed?

Ms. STEIGER. I think, Mr. Chairman—and I think I am in pretty close agreement with some members of the Governors as well—this was simply an oversight in the statute. I don't think there was any intention to allow a rejection by the Board of Governors not to be challenged in any appellate fashion. I think a word just got dropped out of the statute and that that is about all that would be required is to add it.

When could it become a difficulty? That is rather easy to see. If we have a complaint case before us, as we do now, and we make a recommended decision on that complaint case and send it to the Governors; at this point in time, the way the statutes read we fear that a rejection by the Governors could simply end the matter, and the complainant would then have no legal recourse as he does in other areas, to say, "Wait a minute, I want to challenge the Governors. That is why I point it out."

In fairness to the Postal Service, they have never used this what I call loophole. I would still like to see it closed.

Mr. LELAND. Would you please share your thoughts on the recent statements calling for the privatization of the Postal Service, particularly those made by OMB Director-designee James Miller?

Ms. STEIGER. I think privatization and contracting out, which I rather lump together at this point in time, have become kind of buzz word. I would point out that contracting out is not new to the Postal Service in any way, shape, or form. Most of their transportation is contracted out to private hands. I mentioned this morning the problems they are having with air transportation, and it is contracted out to commercial private concerns. You have community post offices that are run under contract by private individuals. You have even in some cases star route carriers of the mail, who, as well as transporting it, serve as actual carrier delivery boys, so to speak, or girls.

So this is not new. GAO has in the past, in fact, encouraged the Postal Service to continually examine its structure to see whether

private concerns could handle better, more efficiently some of the chores including certain janitorial services.

So I think my comment, and it would be that the Postal Service management will continue as they have in the past to look at a case-by-case or function-by-function portion of their enormously complex business to see if it can be done more effectively under contract, just as they have in the past. I would just emphasize that this isn't anything new with the Service. They have long done precisely that.

Mr. HORTON. Would the gentleman yield?

Mr. LELAND. I would be glad to yield.

Mr. HORTON. I think that part of the thing that was said by Mr. Miller, and I, personally, talked with him about this, was that he was, to some extent at least, attacking private express statutes. That was the concern that I expressed earlier and the question that I had with each of you. I am not sure that he was just talking about contracting out. I think he was primarily talking about the elimination of the private express statutes. And I assume that what you said to me would stand also with regard to the question with regard to what Mr. Miller had to say.

Ms. STEIGER. I read Mr. Miller's statement to mean that he supported repeal of the statutes, yes.

Mr. LELAND. Can you tell us the effects of the Senate vote to delay the increase for nonprofit third-class rates until January 1986?

Ms. STEIGER. What I have seen is a statement by the Governors. They will delay the rates until November 16. I understand that that is probably a temporary measure. That they are really looking to a delay until after the Christmas season.

There will be some revenue shortfall from not collecting step 16 rates in that period of time. Postal management has apparently determined, nonetheless, not to implement the new rates, step 16 rates, until after the Christmas season. The reasoning is, I am sure, that the vast majority of charitable organizations which do depend upon the mail to raise their funds do put on a drive at Christmas. Many of them had already planned their budgets for these mailings and I think were able to convince the Senate and the Governors, and no doubt the House eventually, that this would have been an undue hardship and burden on their fund-raising abilities.

Mr. LELAND. At a recent seminar at the Brookings Institution, you said that you thought the Postal Service would be more accountable if the Chairman of the Board were appointed by the President. What kinds of accountability problems do you think exist at the present time in the system?

Ms. STEIGER. I think I would echo Ms. Tyson's remark. The key to me in accountability is congressional oversight. I think this committee has functioned extremely well in the past and can only hope that it will continue to so function in looking from a public policy point of view at the Postal Service. It is a public entity. The suggestion of an appointment by the President of the Chairman of the Board was simply that this would allow a midcourse change of direction should there be a change of philosophy toward postal in a new administration. Their terms are lengthy, Mr. Chairman; they do run 9 years. If there is a change in the administration while I

am still seated, it would be expected that the chairmanship would switch someone else into my role. So it is just rather standard. And I suggest it not because I think it is critical, but it would be one means of achieving more—quote-unquote—political accountability.

Mr. LELAND. One more question, Mr. Chairman.

Madam Chairperson, do you think the Postal Service is justified in continuing to offer express mail service if its on-time performance cannot be considerably improved?

Ms. STEIGER. I think the marketplace will answer your question, Mr. Chairman. You have seen with the decline in service standards in the past year at one point I believe the Board said they had dropped as low as 85 percent on-time delivery. You did see a dip, a rapid dip, in volume. The Postal Service is well aware of this problem and, in fact, deeply concerned about it. I think they are going to work to get those service standards up. This is a highly competitive market and a very volatile one, and if they do not provide express mail with service standards that satisfy the public, the public is going to determine. They will walk with their feet. They will vote with their feet, so to speak, on where they will buy this service.

Mr. LELAND. Do all your colleagues hold the same opinion?

Mr. FOLSOM. I think the chairman is correct that the marketplace will determine. On the other hand, I hope that the management of the Postal Service will recognize that they can't compete and then drop whatever service it is that they cannot compete in. Now we are not talking about the monopoly services. We are talking about services where they have large competition, a great number of competitors. My limited observation has indicated that in some cases they tend—they being the Postal Service—tend to hang onto a loser, and I use ECOM as an example, after the marketplace has said, hey, you can't cut it. I hope that that is not the case here. I hope they make it with express mail. But if they don't, I hope they recognize that they have got a loser and they drop it.

Mr. CRUTCHER. I agree with the Chairman that the marketplace will make the decision. I think, as a matter of fact, the figures indicate that they are in the process of making a decision.

Ms. STEIGER. I would add, Mr. Chairman, in support of Mr. Folsom's remarks, that the Postal Service should not offer any service in a competitive area where they are not meeting their costs. That has not yet happened. Should it happen, the Service wouldn't be justified. It must pay for itself.

Mr. LELAND. Ms. Tyson, I know you—

Ms. TYSON. I don't have any comment other than to associate myself with my colleagues' remarks.

Mr. LELAND. You have all said that you pretty much agree that the marketplace will take care of this problem. But what about the huge advertising bill that the Postal Service has incurred? We, in Congress, are trying to figure out how we are going to meet our responsibility to the public by reducing our deficits. Is there not an alternative? Are there any options to what is going on? Or is the marketplace just going to take care of all of these problems?

Ms. STEIGER. As far as the advertising costs, the Commission has made it clear that advertising costs for a specific service must be borne by that service, and in the ZIP+4 proceedings indeed did al-

locate costs for ZIP +4 advertising. I would presume that policy would continue and that in the next increase or decrease, Mr. Horton, of rates for express mail that the thrust of that advertising would indeed be accounted for.

Mr. LELAND. Thank you. Thank you, Mr. Chairman.

Mr. McCLOSKEY. Chairman Steiger, you have testified as to problems in cash-flow resulting from the delay in the rate increase. As to that and other procedures, could you comment on any ways in which the ratemaking process could be improved?

Ms. STEIGER. Well, I must make it clear that we have no authority at the Commission to either institute a rate proceeding, nor do we have any control over when rates should go into effect. This has long been regarded as a managerial prerogative, and probably rightly so.

As far as improving the process, there was nothing wrong with the process in R84-1. We came in with the decision within the 10-month deadline. The Postal Service had the right to get money immediately, within 10 days. If that is all they wanted to take, they would notice in the Federal Register and they could have put those rates in. It was a management decision that delayed the implementation of rates. I don't know what went into their decisionmaking, but there may have been factors other than cost or loss. They did have a large contingency built into that rate filing.

Down the road, if there were a change that I would make to streamline, other than what we attempt to do on a very serious basis in all of our cases, I think you could guarantee quicker action if you avoided the situation that occurred after the 1980 rate case. There the Governors sent back a case for reconsideration twice. Long periods of time elapsed as we were asked to reconsider. I think there ought to be a limit on either the time of deliberation of the Governors, but most certainly on the number of times that they can send back a case for reconsideration. That was a very large segment of time before rates went into effect.

Mr. McCLOSKEY. From what you said, it would be indicated that you would not think that the Postal Rate Commission should be given the final authority to determine postal rates?

Ms. STEIGER. That, of course, would be to me the guarantee of streamlining this process.

Mr. McCLOSKEY. Pardon me? I am sorry.

Ms. STEIGER. Final authority for the Rate Commission would guarantee a streamlined process. I think that the review we make—and it is an expert review and a highly technical one—of a massive case is adequate. And parties who feel they are not protected by that process have the right to appeal through the courts. I think that is enough. To give the Governors, a part-time board however able, who cannot possibly have monitored this entire massive case—to give them another bite at the apple seems to me to be a waste. I say let us have the final decision authority and let people appeal through the courts.

Mr. McCLOSKEY. Both Mr. Horton and Mr. Leland commented on your concerns as to access to information. I would comment and say it obviously does indicate some sort of unusual relationship when you have a desire for valuable information and you do not, even informally, ask for it. It is an unusual relationship.

Would you go as far as to say the Postal Rate Commission should be given subpoena power?

Ms. STEIGER. I have said so in the past. I still think that is the answer. However, it is not the only answer. In the GAO document that I referred to earlier, GAO urged us to see, before coming to the Congress and requesting legislative relief of that sort, if we could not on our own work out our problems. That is the process that is going on right now, and, as I said, one in which I am very hopeful will show adequate results. If it doesn't, I am afraid I have got to come back and issue my request again.

Mr. McCLOSKEY. I understand one of the procedures to ameliorate the deficit situation is to go to a long-term capital investment program, rather than a pay-as-you-go. Is that a major change? And does it have positive or negative connotations as far as you or other Commission members are concerned?

Ms. STEIGER. I will let my fellow commissioners speak as well, but I would be happy to give you my opinion. The statute does authorize that the Postal Service can borrow up to a billion a half per year for capital expenses and some half a billion a year for operating expenses. The Postal Service has not done so since about 1976, so this is clearly a change of policy. Management has determined that they will fund capital investments not out of current pocket money, so to speak, but that they will borrow long term.

I think the question of whether this is economically wise to do or not is one on which the jury is out. Certainly there will be no substantial impact of this first borrowing because the moneys have already been spent from the cash flow in 1985. You will probably see this money banked and the cost to the ratepayer will be the difference between the interest received and the interest paid, if any.

Whether downstream this policy is the best one, I think time will tell. This certainly will increase the cash position of the Postal Service. And in that sense, since cash position is often their main determinant in filing a rate case, it will delay a rate case. So there may be a tradeoff: delay of a rate case for some incursion of debt.

Mr. McCLOSKEY. Perhaps a question to the chairman and to Mr. Crutcher. Obviously, wage rates and levels are a major aspect of the postal budget and the deficit. Two things. It would seem that there was very loose administration of personnel and overtime policies immediately after the rate increase. I would appreciate comments from both on that. And also, as to Mr. Crutcher, I think he has made public speeches and statements saying one of the main problems is that the Postal Service is overpaid. Could you comment further on that and say specifically, if that is true, what would you like to do about it over the medium and long run?

Mr. CRUTCHER. Yes, I have said that, as a matter of fact. The statutes provide that postal compensation will be comparable to pay in the private sector, and responsible studies that the Postal Service has commissioned itself indicate that the postal employees are compensated roughly 23 to 24 percent higher than comparable pay in the private sector for similar work.

The American Enterprise Institute commissioned a study about 6 or 7 years ago that indicated—the comparability differential was about 33 percent. But I think there is very little question that com-

pensation for postal employees is higher than it is for those doing comparable work in the private sector.

The Service, leading up to the last wage negotiations, made a little study and found that new employees in the Postal Service were compensated immediately about 66 percent higher than they were for their previous employment, which indicates that you are probably paying too much to get new employees in the Postal Service.

Mr. McCLOSKEY. How about the two-tier wage agreement that was signed?

Mr. CRUTCHER. Well, that certainly is one way to attack the problem. I, myself, would not be in favor of cutting anybody's salary. I think the way to go about making changes is to do the two-tier or do some other way of changing the system of compensation.

Mr. McCLOSKEY. Madam Chairman, could you comment on my concerns as to personnel management and costs earlier this year? Was something really out of control there, would you say? Is that likely to happen again, or has that been rectified?

Ms. STEIGER. I think they were out of control. By the end of the last fiscal year and in the first four quarters of this current fiscal year, the Postal Service published reports were showing a spiral work hours. We say rather simplistically that work hours generally grow at about half the rate of volume growth. You were seeing work hours growing at a rate that was almost equal to volume growth. You were seeing very heavy, as I mentioned, double-digit overtime, which we would calculate has probably cost them an additional unexpected \$164 million.

They did seem to spiral. There is a lot of speculation as to why. Was it that there was new hires who were not yet productive, and therefore you had sort of a double whammy? I think the Postmaster General is probably the one who can answer that for you. But there is no question that they were spiralling out of control with the result that you saw; a very rapid change from a rosy picture to a deficit one.

There is no question that there are two factors the Postmaster General must continue to control if he wishes to remain fiscally sound. One is work hours and their relationship to volume; and the cost per work hour and overtime. No question he has a tough job, but that is where it is.

Mr. McCLOSKEY. Thank you.

Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman.

Chairman Steiger, how much staff do you have for the Commission? How many people do you have on the staff?

Ms. STEIGER. I am not counting the administrative assistant and secretary for each of us. I think it is about—what is it, 45 or 46 now? I can submit the exact number for the record, but it is a small staff.

Mr. HORTON. All right, in the vicinity of 45?

Ms. STEIGER. Roughly.

Mr. HORTON. Is this adequate to do the job that you have to do in the Commission?

Ms. STEIGER. Yes. I am pleased to say, by the way, that my two veteran Commissioners joined in a thorough look—

Mr. HORTON. Would you pull that mike up just a little bit? Press it down maybe a little bit. I think you are speaking above it.

Ms. STEIGER. My two veteran Commissioners were a part of an extensive look at our personnel structure and its needs just in the past year. We are satisfied that we have arrived at a complement, as long as our staff is good, that is adequate to our current needs.

Mr. HORTON. All right. Do you prepare a yearly budget?

Ms. STEIGER. Yes, sir.

Mr. HORTON. Does the Rate Commission then submit that to the Board of Governors?

Ms. STEIGER. Yes, we do.

Mr. HORTON. Has the Board of Governors approved your budget each year?

Ms. STEIGER. Yes, sir, and they did this year; even spoke of it in complimentary terms as being fiscally responsible.

Mr. HORTON. So you have had no difficulty in that respect?

Ms. STEIGER. None whatsoever.

Mr. HORTON. What is the size of your budget?

Ms. STEIGER. Four—is it \$4.1 million now? Where are we at?

About that. Again, I can submit that for the record.

Mr. HORTON. \$4.1 million?

Ms. STEIGER. Roughly.

Mr. HORTON. This is for the present fiscal year?

Ms. STEIGER. Yes.

Mr. HORTON. Your fiscal year starts the same as the Federal Government?

Ms. STEIGER. Yes.

Mr. HORTON. October 1. And that is adequate to do the missions that you have on the Rate Commission.

How much oversight do you find that you enjoy as a result of the ratemaking process? How much oversight do you have over the Postal Service?

Ms. STEIGER. Well, we certainly exercise thorough review of any case brought before us. In that sense, not only we, but the public, have the oversight of on-the-record hearings on proposals brought before us. It is an extensive role and a trying one, but we do offer a forum for public scrutiny of Postal Service rates and classifications.

Mr. HORTON. What you are talking about here is when there is a public complaint, then it is filed with your Commission and then you have a hearing and make a determination with regard to that; is that what you are saying?

Ms. STEIGER. We have the authority to hear complaint cases, yes; on specific problems with rates or with classifications. I think as importantly we provide the forum for the general public to comment on rate increases and new service offerings of the Postal Service. We, of course, continue daily with ongoing cost analysis by expert staff of the current picture and the future picture of the Postal Service, and that, too, is an oversight function.

Mr. HORTON. The position of the Commissioners, each of you, is part time; is it not?

Ms. STEIGER. No. We are there everyday, most of us.

Mr. HORTON. Full time?

Ms. STEIGER. Yes, it is considered a full-time position. Yes. And we are compensated at a full-time position rate.

Mr. HORTON. What I am also trying to find out is how much oversight you have over decisions that are made, you might say of policy decisions, with regard to, for example, acquisition of some of the machines that are necessary to speed up the processing of mail and this sort of thing?

Ms. STEIGER. To date, I think you are referring specifically to ZIP+4 automation equipment. Those decisions have come to us after the fact. We have had no input into the purchase of the machinery, nor the design of the system. So I would say that we had no oversight in that decision. We will have, have had oversight into the amount of a discount and the cost of that service as it is ongoing.

Mr. HORTON. Well, for example, according to this Jack Anderson article I referred to earlier, the point is made that the machines that they had were not adequate to do the job and that the Service is spending up to \$2 million a day for salaries of 700,000 workers needed to finish the sorting work the machines can't do. And then it goes on to point out that the Service had estimated that scanners would be able to read 22.9 billion pieces of 9-digit ZIP mail; however, it is only about 6 billion.

Now, will you get into any oversight responsibilities in that connection except when you have a complaint filed?

Ms. STEIGER. Well, the Postal Service has said that it is sending us a ZIP+4 case. We anticipate that they will present that case to the Governors and we anticipate that probably, if the Governors approve it, it will get to us sometime in late December. Those questions as to the productivity of those machines, the read rates that they are achieving, the savings that are not, or are being made as a result of the machines will presumably all be aired before us at that time.

I might add that no matter what else we do we do have a requirement on our shoulders that we see that the Postal Service must break even, and it must do so with honest and efficient and economical management. So presumably we also have the right and the duty to look into whether management has made appropriate decisions when they do come before us. I presume this will be a part of the case on ZIP+4 that we anticipate coming.

Mr. HORTON. Well, in that connection it seems to me that you could be, perhaps, a little bit more aggressive. I am not being critical, but I am just making the point that you could perhaps be a little more aggressive looking at some of these matters, especially as it might relate later to a ratemaking case. In other words, you are going to be called upon at some point in the future to determine whether or not to recommend a rate increase, and it would seem to me that if you can have some oversight responsibility or function with regard to decisions that are being made at the present time that this would, perhaps, help in that decisionmaking process when it gets to you. I realize that you don't get triggered on a ratemaking until somebody actually asks you to take a look at something.

Ms. STEIGER. We have just taken that type of a step very recently. The Postal Service proposed changes to its ZIP+4 system in a Federal Register notice, and, as I testified to a subcommittee of Government Operations not long ago, we inspected that that series

of proposals very carefully, took notice in the Federal Register ourselves indicating that there would be severe cost consequences from their decisions were their decisions implemented. So we have, indeed, been watching this closely.

We will go out and do facility visits to see what these new machines are doing. If they are performing we will attempt, as we have attempted in the past and continue to attempt, to get current data on the read rates of the machines now in operation. I presume that that data has not been forthcoming, first of all, because there is no aggregated national sample of that data yet, but also because they are in preparation of a rate case. So we will get that data eventually.

But we have exercised the type of oversight you are speaking of; of looking at an ongoing system, commenting on it.

Mr. HORTON. Mr. Leland and myself, and others, have sponsored legislation to create an inspector general in the Postal Service. I was one of the principal authors of the first inspector general legislation, which was actually placed in the HEW, which is now HHS. And subsequent to that inspectors general have been placed in all of the agencies of Government with the exception of two departments—the Treasury and Attorney General's Office. The most recent was the Department of Defense.

I, personally, feel that those watchdogs have done an outstanding job. As a matter of fact, just recently we got a letter from Joe Wright, Deputy of the Office of Management and Budget, indicating that some \$54 billion have been saved in the last 4 years as a result of the work of these inspectors general. I think they can do an excellent job. It is my feeling, and I think shared by Mr. Leland and others, that if the Postal Service had such an oversight group it would be very helpful, not only to the Congress, but also to help with regard to pointing out fraud, waste, abuse, inefficiencies, and that sort of thing.

I don't know whether you have had a chance to look at that legislation or whether you have any comments, but perhaps you might indicate if you do have any views with regard to the need for such an inspector general. It might be very helpful to have your remarks on the record.

Ms. STEIGER. I don't at the moment. I know really not a great deal about the Postal Inspection Service. This is the arm that the Postal Service has used in the past. As you noted, the inspector general idea and its—

Mr. HORTON. This would be somebody nominated by the President and confirmed by the Senate, with as much independence as possible. The system that is now in the Postal Service is at the direction, control, supervision of the Postmaster General, so it is not the same animal, if you will, as an inspector general.

Ms. STEIGER. Well, the only thing I could say is that it seems to have worked very well in a wide variety of agencies. I don't see any reason why it wouldn't also work for the Postal Service. I don't see any bar to it. I am not an expert on what the Postal Inspection Service now does or what the needs or problems may be.

Mr. HORTON. Well, I just add that I do think that we are in a very critical situation as far as the Postal Service is concerned and that it is imperative upon each of these different groups that have

a responsibility—the Ratemaking Commission, Board of Governors, the Postal Service, the Congress—to exercise every function and responsibility we have to make certain that we have an efficient operating Postal Service that does its job with the least amount of expenses, so that we can keep this postal rate level and so we can protect these private express statutes. Because I think that would be the undoing of the Postal Service that we have known in the past if we do have to do away with the express statutes. I think it is very important for us to do everything we can, and I know that you understand that responsibility as far as the Rate Commission is concerned. But I do want to emphasize again the need for whatever oversight function you can perform to help in that process.

Thank you.

Mr. McCLOSKEY. Thank you, Mr. Horton.

Chairman Leland.

Mr. LELAND. Thank you, Mr. Chairman. Let me associate myself with the comments made by Mr. Horton, and I appreciate your response, Madam Chairperson.

Let us turn in another direction if we can. In your statement you cited excessive air transportation and overtime costs as the main causes of the fiscal year 1985 deficit. Since the estimates provided to you by the Postal Service for these costs were badly underestimated, it is clear to me that much of the deficit is directly attributable to this inaccurate information.

Can you comment on that?

Ms. STEIGER. I would say it was a significant but not the major cause. There are the other problems with work hours and with overtime. The Postal Service at the time they were presenting the R84-1 rate case to us was in the process of preparing for the end of CAB, sunset of CAB. I think their feeling at that time was one of optimism. That they would, once able to negotiate with all of the carriers, find that they were actually going to have to cost savings on transportation.

I think what happened as time went on was simply that, and by now the rate case is over, by the way, by the time they are really having to face January 1, 1985, sunset. What happened was that they were finding that carriers were not interested in locking themselves into a contract that said we will go from segment A to segment B and we will do it for you for 2 years. With the volatile air transportation market, they were finding that the carriers were saying we are not sure, maybe we will want to shift and go from point C to D. So the Postal Service ran into a climate that I think they had not anticipated. Whether they could have seen that coming or not, I am not one to judge.

I do say that I see it as a continuing problem, Mr. Chairman. This isn't going to go away, and they are going to have to make some monumental efforts to keep that cost down one way or the other. But it isn't going to go away. Not overnight, in any event.

Mr. LELAND. Madam Chairperson, you indicated in your testimony, and I think that to some extent through implication you inferred the same in your response just now, that some of the cost overruns are the result of factors beyond the Postal Service's control. In previous hearings, we have heard that the Postal Service had been warned both by the airline industry and other interested

parties who were monitoring the Postal Service's operation in this area. The Postal Service assumed that airlines would alter their schedules to accommodate mail. This did not happen, and the situation you described in your testimony is the result.

Was the PRC aware of the uncertainty surrounding the airline contracting system, and is this an example of the problems you have pointed out in obtaining adequate information from the Postal Service?

Ms. STEIGER. The estimate of air transportation costs in R84-1 was not challenged that I recall. As I said, at this time the process was ongoing, it had not come to its final stages, and it simply was not an issue that anyone raised in that proceedings. They didn't challenge the Postal Service estimate of cost. The case was, to all purposes, finished and sent us for deliberation, oh, long about the end of June, and I think probably the ball really gets rolling on transportation and its problems after that. So it wasn't an issue.

And I cannot say that we were denied any information on it. We didn't request any. In hindsight, should we have seen this coming? Possibly. Although we are not involved directly in any way with the Postal Service's contracting system, as you know.

I don't recall any evidence—do you?—that this was a challenged figure at all. John?

Mr. CRUTCHER. Not to my memory.

Ms. STEIGER. No.

Mr. LELAND. Thank you. In August, the United Parcel Service filed a motion with the PRC asking you to begin a rulemaking process regarding costing and cost distribution. Would you tell us what UPS is alleging in its motion? What changes they seek, and what action, if any, you plan to take on their motion?

Ms. STEIGER. I believe that UPS's interest is in an examination of the attribution of carrier costs. They have an interest, and stressed this interest in the last rate proceedings, in finding out whether we attribute an adequate amount of those costs: street time, access time, and route time. They have asked for a look of some sort at these costs, some type of proceeding. Where that stands at the moment is that we sent out notification that we had received the request for some sort of a proceeding from UPS, and asked for parties to comment not on the merits of that proceeding, but simply as to whether such a proceeding could be useful.

We have just received the last of the comments from interested parties. We are in the process of reviewing them. They are, these comments, of a very high quality, Mr. Chairman. It is going to take us a while to get through them. It is an extensive batch of responses but, as I say, I think responses that will be helpful to us. When we are done analyzing them we will take a decision as to whether we proceed on the matter.

Mr. LELAND. What impact could this case have on the rest of the mailing public and future rate cases?

Ms. STEIGER. I am not sure I understand the question, Mr. Chairman.

Mr. LELAND. Once you have analyzed the information received by interested mailers, is there going to be some impact one way or another?

Ms. STEIGER. I see. No, there won't be any particular impact from the comments we are now reviewing. They are limited to whether or not such a hearing is legally feasible, a good idea, and that type of question. They do not offer us any new data on costs.

Mr. LELAND. Have any other motions been filed or are you in the process of rulemaking in any other cases that involve issues similar to those raised by UPS? Specifically, I would like to know how this case compares with the case filed by the American Newspaper Publishers Association.

Ms. STEIGER. I am not sure which case you are referring to for ANPA. We have an Advo complaint before us which is concerned with the use of second-county rates for "plus" additions. I don't see any comparison between that and UPS's interest in carrier costs.

We have also a complaint case from ANPA regarding Advo's use of detached labels for mass saturation mailings. That could, I think, be said to have a nexus with carrier costs. That case is now dormant for the moment. The parties have held settlement conferences on the case. I presume it is dormant in anticipation of some action on the Advo matter before us. Whether it will be resumed or not I think will be up to ANPA and the parties. But that one could have a nexus on the carrier cost issue, Mr. Chairman.

Mr. LELAND. Very good.

I have no further questions, Mr. Chairman.

Mr. McCLOSKEY. Thank you, Mr. Chairman.

I don't believe there are any further questions. It may be that some other members may submit some written questions, Madam Chairman. Your cooperation with that would be appreciated. I think you have given excellent testimony today, and I thank you and all members of the Commission. Thank you very much.

Ms. STEIGER. Thank you very kindly.

[The following response to written questions was received:]

POSTAL RATE COMMISSION
Washington, D.C. 20268

Office of the Chairman

October 31, 1985

The Honorable Frank McCloskey, Chairman
Subcommittee on Postal Personnel
& Modernization
.603 House Annex 1
Washington, D.C.

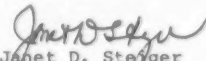
Dear Chairman McCloskey:

Enclosed with this letter are answers to your questions and those of Chairman Leland, transmitted with your letter of October 15, 1985. I hope they will be of help in completing your joint hearing record.

During the hearings, I promised to supply some information about the Commission's staffing and budget, requested by Mr. Horton. Apart from the Commissioners and their individual staffs, the agency has 41 permanent, full-time staff members. The Commission's FY 1986 budget totals \$4,650,000.

Please let me know if we can provide any further information.

Kind regards,


Janet D. Steger

ATTACHMENT A

ANSWERS TO ADDITIONAL QUESTIONS SUBMITTED
BY CHAIRMAN McCLOSKEY

1. Given your knowledge of postal rates and the financial operation of the delivery of mail, do you believe that a rate increase for rural areas would be forthcoming if a repeal of the Private Express Statutes were implemented?

1. The fundamental economics of postal service indicate a possibility that increases in the cost of mailing via the U.S. Postal Service might follow repeal of the Private Express Statutes. It could fall disproportionately on nonurban areas -- though we have made no economic studies to test that possible conclusion. Indeed, the whole area has generated brisk debate. For instance, it has been disputed whether rural mail costs would rise or fall under demonopolization. See James C. Miller III, "End the Postal Monopoly," 5 Cato Journal 149, 154 (1985). Others have discussed whether a Congressional subsidy might be created to take care of the rural service problem, if it arose. James I. Campbell, Jr., "The Postal Service and the Postal Rate Commission," in Richard N. Howiel, ed., The First Year, p. 345 (Heritage Foundation, 1982).

2. Several of my constituents, specifically members of rural Indiana churches, have written to me regarding 3rd class postage rate eligibility requirements. As you know, currently a 3rd class mailer must mail a minimum of 200 pieces to qualify for the reduced rate. The problem with many rural churches in the Eighth District, and I suspect in all of rural America, is their small membership. Parishes without 200 members are forced to either mail congregation news at rates above 3rd class rates or avoid the law and mail double mailing to its members to qualify for the 200 piece minimum.

Are you satisfied with the current minimum piece per mailing requirement for 3rd class mailers? When was the last time the per piece mailing requirement was reviewed? Is there any merit in reducing the minimum requirement?

2. Generally, establishing the minimum number of pieces for a bulk category requires a balancing of postal efficiency against wide availability of the service. Each bulk mailing as a unit has a certain amount of cost associated with it -- such as acceptance costs; if these costs have to be recovered from a smaller number of pieces per mailing, the rates for the category may have to be increased. On the other hand, as you point out, some mailers may have difficulty meeting the minimum. Choosing a minimum requires an understanding of the potential market for the mail and of the technical and cost characteristics of the service it gets. At times, we have differed from the Service's views on the appropriate minimum. For example, in the ZIP+4 proceeding we recommended a minimum of 250 pieces for nonpresorted ZIP+4 mail rather than the initially-proposed 500 pieces. PRC Op. MC83-2, at ¶¶ 4051-4072 (1983). It is inevitable that some mailers will register dissatisfaction with a minimum that is high enough to insure efficient handling of bulk mail. We are always open to suggestions, in appropriate rate or classification cases, for change in the minimum.

In the nonprofit third-class area, there is an additional complication which could prevent a change in the minimum. As you know, this subclass receives revenue-forgone appropriations under § 2401(c) of the Act. Its eligibility for this assistance is defined by § 3626(a)(1), which in turn refers to former § 4452(b), (c) for a definition of eligible mail. Subsection 4452(b) in turn refers to subsection (e), a general definition of bulk third-class mail as

. . . separately addressed, identical pieces of third class mail in quantities of not less than fifty pounds or of not less than two hundred pieces subject to pound rates of postage applicable to the entire bulk mailed at one time.

Even though most former title 39 mail classification provisions were converted by the Reorganization Act into administrative regulations that could be changed by the PRC and the Governors, the appropriations-related provisions were preserved as statutory

law by § 3626. It is questionable whether the PRC and the Governors could increase the appropriations burden on Congress by expanding the eligibility for nonprofit bulk third-class mail. In the past, the Commission has ruled that it cannot admit a new type of mail matter to a subsidized class, since doing so would amount to dictating to Congress the appropriate subjects of appropriations from the general treasury. PRC Order No. 593, ___ PRC ___ (Docket No. MC84-1, December 11, 1984); Order No. 148, 3 PRC 187 (1977). Similar arguments might be raised against expansion of a quantitative eligibility term that Congress preserved in 1970. Difficulties of this kind probably account in part for the fact that the nonprofit third-class minimum has not been raised as an issue in our cases.

The churches you mention could, however, attempt other alternatives to lower postage costs. First, many churches mail newsletters to parishioners as second-class publications. There are some additional requirements that would have to be met¹, but second class has no minimum. Both within-county and nonprofit second class have subsidized rates. Another course of action might be to merge with mailings of other churches to reach the minimum for nonprofit bulk third class. These solutions may yield an answer to a small congregation's mailing problems, without detracting from the bulk character of third class which is provided by the minimum-pieces requirement.

¹ For instance, second-class publications must be issued at least four times a year, and may not be produced by mimeograph or stencil processes.

ATTACHMENT B

ANSWERS TO ADDITIONAL QUESTIONS SUBMITTED
BY CHAIRMAN LELAND

1. Postal Service officials continue to complain that the rate making process is lengthy and cumbersome. How do you feel about the current rate making process and do you have any specific changes you would like to see implemented?

1. In light of the benefits the public derives from it -- open decisionmaking on the basis of tested evidence, a forum open to every interested party, and a full explanation of why the rates are set as they are -- the process is definitely not too lengthy. The issues are complex, but that is not the fault of the ratemaking process. They are complex because the Postal Service is a \$30 billion a year enterprise with over 700,000 employees, offering dozens of different types of service and enjoying a statutory monopoly over some of them.

It is worth noting that when the GAO surveyed representatives of those who pay the bills -- the mail users that appear in postal rate cases -- they generally gave high marks to the current ratemaking process. In particular, a majority found the hearing process efficient and effective, while 73% said the 10-month schedule was not overly long. GAO/GGD-84-10 (April 23, 1984), at 11-12, 14.

In 1982, these Subcommittees heard this testimony from a lawyer experienced in PRC litigation:

If rates are to be designed in a rational way, then you are going to have these lengthy, difficult, extensive hearings. And yet these hearings are concluded within 10 months.

I know of no other regulatory agency in the country, in this town or in any State, that can handle as complex and big a case as the general rate proceeding and get it done in 10 months. It just doesn't happen.

If I were not here today testifying, I would be over at the Federal Communications Commission

awaiting a decision on the stereo AM case, a proceeding that is now 5 years old. . . .

Subcommittees on Postal Operations and Services and Postal Personnel and Modernization, House Committee on Post Office and Civil Service, 97th Cong., 2d Sess., Hearings on Effectiveness of the Postal Reorganization Act of 1970, Part 2, at 383 (March 4, 1982) (Testimony of Timothy J. May, Esq.).

That does not mean improvements are not possible. Some were suggested by GAO and we are working cooperatively with the Postal Service on them. Also, as I stated in the hearings, I continue to support final decisional authority for the Commission, subject to the Governors having an appropriately-defined right to rehearing of a PRC decision. That would streamline the process, particularly if such reconsideration at the Governors' request were limited to one round. There was some justifiable criticism of the process in the 1980-81 rate case, because of the repeated cycles of reconsideration.

2. How would Presidential appointment of the Chairman help solve problems of accountability?

2. The suggestion that the President appoint the Chairman of the Board of Governors was a response to the question what might be done to increase the political accountability of the Postal Service. Within that frame of reference, the institutional locus of the Postal Service in the Executive Branch suggests that a President with new ideas on how best to carry out the mandate of the Postal Reorganization Act might well find the job easier if the Chairman were chosen by him. Because of the number and duration of Governor appointments, a new President might not be able to appoint a majority of the Board for five years. As I noted at the hearing, I do not think this is a major issue, nor do I suggest that the Board Chairman should be given the concentrated administrative powers usually delegated to the chairman of multimember agencies by statute or reorganization plan. (The status of the Board as a part-time body suggests that no such delegation would be necessary.)

3. In light of the low usage levels for nine-digit ZIP coded mail, do you feel that the Postal Service is justified in continuing to attempt to attract users by offering discounts?

3. When a program -- of either worksharing or internal efficiency improvement -- results in lowering the cost of handling mail, I believe users should be attracted to it by receiving back at least part of the savings through a discount. The Commission has always been receptive to proposed discounts based on demonstrable savings. It is the opportunity to create and enhance efficiency by means of discounted rates that justifies such proposals. This implies, of course, that a "discount" based on nonexistent or wholly speculative savings will be hard to justify. Presumably, though, neither the Postal Service nor any other rational enterprise is going to offer discounts to attract patrons to a program that will not result in savings.

4. The Senate voted to direct the PRC to conduct a study and report on who should have access to third class nonprofit rates. Do you have any preliminary thoughts on how you would conduct such a study and what criteria you would use in determining who should have access to those reduced rates?

4. If Congress were to direct the PRC to conduct such a study, there are certain principles that would have to govern it.

First, Congress has to have ultimate control when it comes to judgments of social policy regarding the worthiness of different classes of entity to have access to subsidized rates. It is a legislative function -- no matter how much help an administrative agency may be able to give -- to decide whether, for instance, a veterans' organization is intrinsically more or less deserving than a university.

Second, we clearly have the expertise to study such questions as:

-- how much do various groups use the reduced-rate classes?

-- what classes do they use?

-- what do they use them for?

We can assist Congress by investigating these facts and showing how they would bear on legislative decisions to change basic eligibility rules. (It is worth noting that the Senate proposal asks us for a study and a recommendation. It does not expand our mail classification authority so as to delegate the ultimate decision to us and the Governors.)

One other thing is clear, even at this preliminary stage: any such study should be ordered on the express legislative understanding that it have the full cooperation of the Postal Service. Without this, the informational content -- and thus the ultimate Congressional decision -- will suffer.

5. What, if any, changes is PRC considering regarding eligibility requirements for second-class mailings in response to Tri-Parish Journal's recent appeal?

5. This case is pending before us as this is written; indeed, we expect to issue a recommended decision before Thanksgiving. Hence I cannot comment in any detail on the merits. We are, of course, considering the proposals that Tri-Parish Journal has made -- as Judge Beer's order dismissing Tri-Parish's court suit called upon us to do. Tri-Parish urges us to recommend eliminating the paid-subscriber and requester requirements for second-class entry, and thereby allow entry for free-circulation papers distributed to all households in an area or community. If the necessity for limiting the class to customary types of publications continues to be felt, Tri-Parish has suggested a board of journalism experts as a mechanism for making such judgments on a publication-by-publication basis.

6. How great a problem is the Postal Service's unwillingness to share information for you and the PRC?

6. As I mentioned briefly in testifying before the subcommittees, I see signs that this problem is being alleviated. Certainly, top Postal management has expressed strong endorsement for more openness about basic information. Governor Ryan has taken a particular interest in the matter at the Board level, and his colleagues have supported him. The Postmaster General has begun similar initiatives. I believe that overall policy has shifted toward a more open informational environment, and I hope that this general approach will prevail all through the ranks of our organizations. As with any policy, implementation in detail is the real test.

7. To set the record straight, would you respond to the allegation that the Postal Service is allocating a disproportionate share of overhead or institutional costs to non-profits resulting in an inflated appropriation request for "revenue foregone"?

7. As I understand this criticism, it is that the Service calculates revenue foregone by subtracting preferred-rate revenue (which by definition equals attributable cost) from the regular-rate figure. The difference is presented to Congress as the necessary revenue foregone subsidy.

Metaphysicians could have a field day with the question whether in doing this the Service is misallocating institutional costs -- or even allocating them at all. However, it is certainly possible to argue that it could ask the PRC to figure a (hypothetical) institutional cost contribution for preferred-rate mail and use that figure to generate an appropriations request. If that were done, then Congress would be asked to provide the difference between the hypothetical rate for a nonprofit piece and the attributable cost it causes (which, as noted, is identical to the rate). Generally, nonprofit third-class mail has a lower attributable cost than regular; for one thing, it is on the average a good deal lighter. The current calculation

procedure ignores the circumstance that associating the full rate for regular mail with nonprofit mail (for subsidy calculation purposes only) implies a materially larger institutional cost burden on nonprofit than on regular mail. The alternative would correct this seeming anomaly. The result should be to lower the amount of subsidy needed.

There could be arguments both ways as to which is the better alternative. If one assumes, for instance, that third-class nonprofit and third-class regular mail were always intended to be thought of as separate classes, then this procedure makes sense. If one views the subsidy mechanism as just a reduction in price from the "regular" rate for the same kind of mail, then the Service's current practice is logical.

Mr. McCLOSKEY. I think we will go now to the Director of the General Government Division of the General Accounting Office, William Anderson.

Thank you very much for being here today, Mr. Anderson. You may proceed.

STATEMENT OF WILLIAM J. ANDERSON, DIRECTOR, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY WILLIS ELMORE, GROUP DIRECTOR

Mr. ANDERSON. Thank you very much, Mr. Chairman.

I would like to start by introducing the gentleman to my right. Willis Elmore is a group director in charge of GAO's work at the Postal Service. He has been there since July 1979.

My own association with postal matters goes back to 1972 when I returned from an overseas post and was put in charge of our work at the Postal Service during that troubled period. I am not as much in the depth of its operations anymore, but it still is in my area of responsibility as Director of the General Government Division.

With your permission, I would like to introduce my full statement into the record. I have outlined some brief comments I would like to make here that summarize the important points in it.

I think the critical event that has affected the Postal Service recently is the very same one that Chairman Steiger spoke of, the fact that we had a postal rate increase this year and we are still expecting a loss. We see that as highly significant.

The scenario that we are operating in has been a time of many changes and some unpleasant surprises for the Postal Service.

In the way of changes, we had the top management changes that not only affected the Postmaster General and the Deputy but 4 out of 5 senior Assistant Postmaster General positions as well as 12 other high ranking executive positions. We saw airline deregulation. We saw the change to give all second-class mail priority treatment which added significantly to the volume in the priority mail stream. And we saw the decline in mail service that occurred earlier this year.

We also had a bunch of unpleasant surprises from the standpoint of the Postal Service. We had the arbitration results that Chairman Steiger referred to, which increased labor costs beyond those

anticipated. We saw an inability to negotiate favorable rates for air transportation contracts. Again, Chairman Steiger referred to the fact that the Postal Service thought they would have 92 percent of the mail transported by air under so-called segment contracts between city pairs at better rates than that residual 8 percent at system contract rates. They didn't succeed in doing that. We estimate that this is costing them additional money. I think the \$109 million figure we heard this morning is about right. We had labor hour and cost overruns that the Postal Service has experienced, especially since January of this year. And we had the continued failure to obtain anticipated ZIP+4 volumes. These are all unpleasant surprises that affected Postal Service finances and operations.

I will turn now to just three topics that I briefly want to touch on. The first of these is the ZIP+4 update as I call it. You are aware of the apparent move to the multiline optical character readers or OCR's that the Postal Service is contemplating. We are a little uncertain as to how that new buy is going to fit into the carefully designed system that was established in connection with buying the phase I and phase II OCR equipment.

We are aware that there has been a reassessment of expected ZIP+4 volumes. I testified here a couple of months ago and said it was becoming increasingly apparent that the Postal Service was overly optimistic in its estimate of the ZIP+4 volume it was going to get in the out-years. It, in fact, had predicted 50 billion pieces by 1989. That now looks highly suspect. In the shorter run, we have seen their volume estimates continue to go down. Originally for 1985 they had anticipated 21 billion pieces. That was revised in the summer of last year to 6.8 billion pieces. Apparently they currently expect something in the area of 6.5 billion pieces. For 1986 the original estimate was 31 billion pieces. That was reduced last year to 13 billion pieces. We understand the latest estimate is 10 billion pieces. This poses a problem in terms of the benefits the Postal Service expected from that automation.

As I said, the critical question that this committee and GAO ought to be concerned about is how these multiline OCR's are going to be integrated into the system that the Postal Service has designed and established for the single line read OCR's which was expected to handle 85 percent of letter mail volume.

The second topic I want to speak about is the 1985 finances, and I guess I will just corroborate essentially the picture that Chairman Steiger pointed out. The Postal Service initially anticipated a \$56 million profit from its 1985 operations but now expects a loss. The Postmaster General has testified in the last month or so that he now expects that the final year end figure will be something less than \$323 million, which was the loss through accounting period 12. GAO has come up with some quick and dirty numbers of its own, and we are in the same ballpark. We see something in the order of \$250 to \$270 million being the final loss figure for 1985.

Now, the composition of the accounts that led to that. First, revenues are just about going to be on target. The overs and unders gave the Postal Service the dollar amount of revenue it was expecting. Expenses, again as was brought out earlier, were the problem. We had the arbitration situation. We had the fact that many more work hours than expected were used. I think through accounting

period 12 something like 22 million more work hours than anticipated had been used.

Apparently, as we understand it, these additional work hours were devoted to two things. No. 1, the unanticipated disruption associated by moving all second-class mail into the priority mail stream. A lot of it had been in the priority mail stream before. Forty-four percent of it was added to the priority mail stream as a result of a decision to move it all. That took place around January, so that contributed to some of those problems we had earlier in the year. It probably contributed, as well as the air transportation problems, to the decrease in mail service that took place just about accounting period 4, around January or so. These two things required heavy applications of staff to try and do something about it. And in fact, the Postal Service got itself in deep financial trouble at that time.

The domestic air transportation situation I have already spoken about, and there have been hearings on it earlier.

The third and last thing I want to touch on is the fiscal year 1986 outlook. We have looked at the numbers for this year and tried to think, well, what is next year going to look like? And we come up with a picture that shows that the Postal Service, in fact, could come close to breaking even next year, which would tend to confirm Chairman Steiger's view and the Postmaster General's view that we can hold off on a rate increase for a while.

First, we will have the full-year effect of the postage rates that went into effect in February of this year. I think Chairman Steiger mentioned that the Service's revenue for 1985 would have been \$900 million more had that rate increase been in effect throughout the whole fiscal year. Apparently the labor costs are under control. The latest numbers that the Postmaster General has testified to and that Chairman Steiger referred to showed that the incidence of overtime is, in fact, going down and that as more and more of these new employees are hired and received the new, lower tier 1 pay, payroll costs per hour have dropped.

We expect that the trend of increased volume that existed in 1985 will persist. That was 6 percent in 1985. If it continues at the 6 percent pace in 1986, we can paint a picture that would get something on the order of break even.

On the other hand, we have this revenue forgone appropriation situation that could throw all of that out the window, if, in fact, the Congress ends up holding some large part of those moneys from the Postal Service.

Let me stop right there, if I may, sir, and then Mr. Elmore and I will try to answer any questions that any of the members may have.

Mr. McCLOSKEY. Thank you very much, Mr. Anderson, for a very forthright statement.

[The statement of Mr. Anderson follows:]

UNITED STATES GENERAL ACCOUNTING OFFICE
Washington, D.C. 20548-0001

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m., EDT
Thursday, October 3, 1985

STATEMENT OF
WILLIAM J. ANDERSON
DIRECTOR, GENERAL GOVERNMENT DIVISION
BEFORE THE
SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES
SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES
ON
THE PRESENT STATE OF THE
UNITED STATES POSTAL SERVICE

Messrs. Chairmen and Members of the Subcommittees:

We are pleased to be here today to present our views on the events and issues that currently affect the operation and management of the Postal Service.

After three straight years of relatively stable and profitable operations, fiscal year 1985 has been a time of change and challenge for the Postal Service. Of special significance, this streak of profitable years was broken as the Service incurred a large and unexpected loss. Before commenting on this, I would like to briefly discuss some of the important events which occurred during the past 9 months or so.

To start, the people holding many senior managerial positions have changed since January. A new Postmaster General and Deputy were appointed and leadership changed in at least 16 other executive positions, including 4 of the 5 Senior Assistant Postmaster General positions. Most of these changes were announced in February and were made within a few months.

In December and January, 5 to 6 months after contracts expired, the Service and the unions representing most postal employees entered into new labor contracts which increased wages. The contracts were produced by arbitration rather than negotiation. Three other cost increasing events occurred in January--the transportation of mail by air carriers became deregulated, the decision to give preferential treatment (same as First-Class Mail) to second-class mail was fully implemented, and a decision was made to improve deteriorating mail service.

In February, new postage rates, the first in over 3 years, went into effect and the price of a First-Class stamp went from 20 cents to 22 cents. However, these increases, on average, were less than the Service requested. Overall, the Service had

proposed a 15 percent average rate increase but received 9 percent.

In July, the Service's Board of Governors announced a major mid-course change in the ZIP + 4 program, the Service's long-term and widely debated automation program for reducing mail processing costs. The change concerns the use of multiline optical character readers, or OCRs, to automate mail processing operations. We understand that the Service plans to buy up to 250 multiline OCRs and to convert to multiline technology the 403 single-line OCRs purchased in 1984.

In August, the Service announced plans to seek--later this fall--an increase in the postage discount large-volume mailers receive for using ZIP + 4 codes. The expanded ZIP Code is a critical part of the automation program and mailers have not used the code anywhere near the levels the Service originally envisioned. This decision signals that the Service remains committed to having large-volume mailers use the ZIP + 4 code but is preparing for low usage by acquiring multiline read OCRs. The multiline OCR needs no ZIP Code on the mail piece if the address is in the machine's internal directory but operates more efficiently when a ZIP Code is present.

In September, the Board of Governors approved the borrowing of up to \$1 billion to finance capital investments and thereby replenish working capital, which has been used in lieu of borrowing to finance capital investments in recent years. The last borrowing occurred in 1976.

During the past several months, Postmaster General Carlin and his managers were confronted with a very difficult and unexpected challenge: how to avoid a potential \$500 million deficit for postal fiscal year 1985, which ended just last week. In contrast, the budget for 1985 anticipated net income of \$56 million. Mr. Chairman, I know that you and the members

of these subcommittees have been deeply concerned about the potential deficit and, in your hearings this past summer, encouraged Service officials to take definitive and reasonable measures to prevent it.

NET LOSS FOR POSTAL

FISCAL YEAR 1985

Although the Service has cut expenses to below budget for recent months, postal fiscal year 1985 undoubtedly ended with a deficit. The final numbers for 1985 are not yet available but we estimate the deficit to be around \$270 million. We base our statement on the financial trends that occurred in the first 11 months of the fiscal year and the extension of those trends through the final month.

A \$326 million "miss"--our estimated \$270 million deficit plus the Service's planned net income of \$56 million--is less than 2 percent of the almost \$29 billion 1985 budget. Even so, a \$270 million loss is worrisome for several reasons. Not the least among them is whether the causes of the deficit will carry over to succeeding years and lead to rate increases much sooner than expected.

1985 Revenue

Comparing the Service's revenue and expenses in 1985 to amounts budgeted, the causes of the deficit come more from the expense side than the revenue side. Overall revenue for 1985, we believe, will closely approximate the budgeted amount--\$28,886,445,000.

The Service earns most of its revenue from delivering mail, and the volume of mail delivered in 1985 was probably slightly lower--less than 1 percent--than what the Service estimated. However, even at this laudable degree of estimating precision, the difference is worth about \$114 million. This revenue shortfall--caused by lower-than-planned mail volume--was made up by other revenue sources and circumstances.

For example, the new postage rates took effect about one month earlier than the Service planned in its budget. We estimate the new rates produced additional revenue of nearly \$170 million during that month. (The new rates would have produced additional revenue approximating \$900 million if they had taken effect at the start of the fiscal year.)

The increased rates were not effective during the Christmas season--the most profitable months for the Service. Furthermore, for the 4 week accounting period ending January 18, 1985, the Service incurred a very substantial loss--\$202 million--almost 75 percent of our estimated net loss for the year. In hindsight, the financial picture for 1985 would have had less or maybe no "red ink" if the new rates could have been made effective earlier in the year.

1985 Expenses

The 1985 deficit was caused mostly by larger-than-planned expenses, principally for salaries and benefits and domestic transportation. The Service is a labor-intensive organization and salaries and benefits naturally constitute the largest portion of its operating costs. In 1985, that portion was around 83 percent. Domestic transportation involves the use of trains, trucks, airplanes, and water vessels to move mail from one location to another. It is the Service's second largest operating expense.

Salaries and benefits

Through August 30 of fiscal year 1985, the cost of salaries and benefits was about \$441 million over budget, largely for two reasons.

--About \$170 million awarded to postal employees by the labor settlement was not budgeted. The arbitrators' awards were larger than the amounts the Service estimated when preparing the budget.

--Nearly 22 million more workhours than planned were used to operate the Service. Workhour usage has been spurred by a higher processing priority for second-class mail and a decision to reverse a deterioration in mail service.

Regarding mail service, the Service has 1-day (overnight), 2-day, and 3-day delivery standards for First-Class Mail. The distance a letter travels determines the applicable standard; for example, across town is 1 day and across the country is 3 days. The Service gauges its performance by comparing the current year's performance with that of the previous year. During fiscal year 1985, mail service to 1-day areas has been at or better than 1984 levels. However, for much of fiscal year 1985, mail service to 2- and 3-day areas has either been below 1984 levels for weeks at a stretch or been inconsistent, fluctuating above, at, and below 1984 levels. For the 4 weeks ending August 30, service to 2- and 3-day areas was at or above 1984 levels.

Domestic transportation

Domestic transportation is over budget primarily due to air transportation costs. These costs were the subject of a hearing this past summer by the Subcommittee on Postal Operations and Services. As of August 30, air transportation costs were nearly \$109 million (about 20 percent) over budget.

FISCAL YEAR 1986 OUTLOOK

Now that fiscal year 1985 is over, the question is whether the financial picture for 1986 will resemble 1985. We have no precise prediction to offer but we would like to point out several conditions affecting the 1986 budget and, using a number of assumptions, indicate where the year could end financially.

Last month, the Deputy Postmaster General told the Board of Governors that Regional Postmasters General and Headquarters' officials would submit "break even" budgets for 1986. The break-even budgets were developed after the Service had projected a deficit as large as \$588 million for 1986.

"Revenue Forgone" Appropriation

One item which could critically affect the Service's 1986 financial picture is the revenue forgone appropriation. The appropriation reimburses the Service for overhead costs assigned to special categories of mail, such as third-class letters sent by nonprofit organizations and educational material sent to or by schools.

The Office of Management and Budget, the agency that makes the revenue forgone appropriation request for the Service, refused to request funds for 1986. However, Congress has signaled that it will appropriate funds. It passed a budget resolution that provides \$749 million, a sum large enough to cover all assigned overhead costs. Larger amounts--to also lower the direct costs mailers pay--have been recommended by the appropriation committees.

To date, a revenue forgone appropriation for the year remains unauthorized. The Service will have to bear all the overhead costs if no appropriation is provided or bear the cost for any amount appropriated less than \$749 million. We doubt that postage rates could be adjusted in 1986 to recover overhead costs.

Clearly the Service must continue to seek ways to contain operating costs because factors which contributed to 1985 increases will not disappear. The overall number of paid employees is not expected to decline appreciably, although the number may level off. Wage increases required by the new labor contracts must be funded and the current contracts for air transportation services remain in effect. On the plus side, the new management team should be firmly in place and the 1985 rate increases will cover a full year. Assuming a 6 percent increase in mail volume, the same as occurred in 1985, and no unexpected major cost increases, we believe that although 1986 will probably also be a deficit year, the amount could be less than that experienced in 1985.

That concludes my statement, Mr. Chairman. We will be happy to answer any questions you may have.

Mr. McCLOSKEY. Chairman Leland.

Mr. LELAND. Thank you.

Mr. Anderson, the Postal Service recently refused to comply with the city of Alexandria's regulations which require that sprinkler systems be installed in work areas. The Postal Service stated that they are governed by their own regulations and not those established by the city of Alexandria.

Would you comment as to whether the Postal Service's actions are consistent with other Federal agencies regarding these kinds of regulations?

Mr. ANDERSON. The Federal Government as a rule is the leader in adherence to those type of regulations, sir, and I am hard pressed to think of any instances where the Federal Government had to be prodded by some other government to comply with safety standards. In fact, the Federal Government, as a major lessee across the country, usually finds itself in the position of compelling adherence to the Federal Government's own higher standards in many cases. So this is a highly unusual situation.

Mr. LELAND. In light of the disastrous fire that recently ravaged the Postal Service's headquarters, do you think any decision to not install sprinklers in the new building can be justified?

Mr. ANDERSON. I am sorry, sir, I am not sure I caught the tail end of your question. Let me strike to the spirit of where you are going. I think it is absolutely improper not to provide for full adherence to code in connection with fire safety.

Mr. LELAND. That answers the question.

The Postal Service Board of Governors has decided that an additional 250 OCR's of the multiline variety are necessary for the 9-digit ZIP Code Automation Program. Do you think the lack of progress of the 9-digit program justifies this action, and why or why not?

Mr. ANDERSON. I would say that the wisdom of this action is almost independent of what happens with respect to ZIP+4 usage. By that I mean that if, in fact, they could actually deploy successfully multiline read equipment across the country, the importance of the ZIP+4 on the envelope diminishes considerably. In other words, if you have the multiline read, you can still put the bar code on it without the ZIP+4 in many instances. The efficiency of that process is, however, improved when ZIP+4 is on the envelope.

What concerns me about the 250 machines is that I am not aware, although I won't say that it hasn't been done, of any study of the system that the Postal Service anticipates having after those 250 pieces of equipment are acquired. I know they got 250 OCR's in connection with the phase I buy, as you are aware. They got 403 pieces of equipment in connection with the phase II buy. These equipment buys enabled them to get coverage to something like the 209 largest offices across the country accounting for something like 85 percent of the mail. Now we are going to pump 250 more pieces of equipment on that, and I just don't understand. I would have to see exactly what the configuration of the entire system would look like. I would be suspect of the wisdom of proceeding with that buy until I had seen it.

The Office of Technology Assessment and GAO jointly testified here last year, and the Postal Service agreed at that time, that one

desirable approach would be to explore the possibility of developing conversion kits for the single line equipment that was currently being installed. The Postal Service at one time proposed a timetable for doing that. They have not adhered to that timetable. So even aside from acquiring 250 new multilines, to me a simple, direct approach at one point in time that made sense, and maybe there is new data that it doesn't now make sense, was to explore whether, in fact, the 653 single line OCR's being deployed should be all converted to multiline.

It is a long answer to your question, sir, but I think it is an important question and an important area of postal operations.

Mr. LELAND. Thank you. The Postal Rate Commission cited earlier—and you were here and heard—excessive air transportation and overtime costs as at least a part of the main cause of the Postal Service's fiscal year 1985 deficit. Since the estimates provided to the Postal Rate Commission by the Postal Service for these costs were badly underestimated, it is clear to me that much of the deficit is directly attributable to this inaccurate information.

Can you comment? Do you believe this, also?

Mr. ANDERSON. It is absolutely correct to say, as Chairman Steiger said, and I said earlier myself, sir, that the problems were associated on the expense side, not on the revenue side. In fact, they did get the revenue that they anticipated, although there were, again as I said, some overs and unders.

Whether in fact the air transportation problems could have been anticipated, I personally am uncertain about that. The Postal Service has asserted that the problem is that instead of having 92 percent of the mail moving under segment contracts, only 40 percent of the mail is moving under such contracts, and that they are paying much more for that 52 percent that is now moving unexpectedly by system contracts. We have looked at some numbers but we can't verify that.

Right now, with the preliminary look we have taken, we have been unable to establish that, in fact, that was the cause—the differential between the segment contracts and the system contracts. But I can believe that there were some real problems by the unwillingness of airlines to commit themselves to offering segment service even for a 2-year period by virtue of what is happening out there competitively between the carriers.

With respect to the overtime hours, I think the Postal Service, there were some—I have got to say it—managerial misjudgments that got them into—that unanticipated consequences from moving second-class mail into the priority mail stream and, perhaps, unanticipated consequences in moving mail by air after deregulation, and just the wholesale application of people and overtime to try and solve those problems.

Mr. LELAND. Last question, Mr. Anderson. The Postal Service has said that they are looking into the possibility of leasing their own airplanes to carry mail. I have stated before that I shudder at the thought of the Postal Service running their own airline. What are your thoughts on the idea that the Postal Service will run their own airline?

Mr. ANDERSON. It is certainly something that is subject to analysis, sir. I can conceive of some instances on some city pairs where it

might make sense. I am also sure that there are a lot of places in that network where it wouldn't make sense. And there are an awful lot of points to be served. I know you are well aware of that, sir. I mean we have to get mail back and forth from 39,000 facilities across the country. I know that they have 4,959 contracts that they are operating under right now for the provision of air service. But it is something that could be explored, perhaps, on a piece-by-piece basis, just as you explore perhaps alternatives to air that could still enable you to meet delivery standards. GAO, a couple of years ago, wrote a report that the Postal Service was unnecessarily paying for air transportation in a number of city pair situations and that it should start looking whether service standards could still be met with surface transportation.

Mr. LELAND. Thank you, Mr. Anderson.

Thank you, Mr. Chairman.

Mr. McCLOSKEY. Thank you, Mr. Chairman.

We do have a vote now, and I know both my fellow members here may have further questions, and I have two or three. So, Mr. Anderson, if you will excuse us for 10 or 12 minutes, we will be back.

Mr. HORTON. Mr. Chairman, as far as I am concerned, I will just thank the witnesses and whatever questions I have, I will submit to them and they can submit the answers in writing for the record.

Mr. ANDERSON. Thank you very much, Mr. Horton.

Mr. McCLOSKEY. I just have two or three questions. If that is the case and Mr. Leland has no more, then I will submit those two or three in writing. Thank you very much, Mr. Anderson.

Mr. ANDERSON. Thank you, sir. Our pleasure.

[Whereupon, at 12:05 p.m., the subcommittee was adjourned, to reconvene subject to the call of the Chair.]

[The following response to written questions was received for the record:]



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

DEC 5 1985

The Honorable Frank McCloskey
Chairman, Subcommittee on
Postal Personnel and Modernization
Committee on Post Office and
Civil Service
House of Representatives

Dear Mr. Chairman:

Enclosed are my written responses to your questions for the record and those of Chairman Leland. The questions are in connection with your and Chairman Leland's October 3, 1985, oversight hearing on the Postal Service.

I was very pleased to testify before you on October 3 and look forward to doing so again. My staff is always available to assist you in your oversight of the Postal Service.

Sincerely,

W. J. Anderson

William J. Anderson
Director

Enclosure

BEST COPY AVAILABLE

Questions Submitted by Chairman
McCloskey for GAO

1. Do you believe that a rate increase will be necessary in the near future?

As you know, productivity levels at the Postal Service are currently subject to considerable debate. Productivity is measured by the Postal Service in terms of gross output. What are your views on this measure of productivity? How would GAO measure productivity at the Postal Service? Do you have any figures on the current productivity levels at the Postal Service? Why are they so low?

In terms of the near future, we do not believe a general rate increase will be necessary during fiscal year 1986. On the basis of certain data and assumptions, we believe the Postal Service could come close to financially breaking even for 1986. We tend to concur with the Postal Rate Commission's speculation that, at the earliest, new rates will be needed in early fiscal year 1988, which starts in the fall of calendar year 1987. The Chairman of the Postal Rate Commission, Mrs. Janet Steiger, speculated on the 1988 date in her October 3, 1985, testimony before the Subcommittees on Postal Operations and Services and Postal Personnel and Modernization.

We have not fully evaluated the methodology the Service uses to calculate productivity rates or fully examined the reasons for the reported rates which you consider low. The Postal Service Governors have expressed dissatisfaction with the Service's current methodology and, at the Governors' request, the Service is developing alternative measurements.

2. In your statement you indicate that part of the financial problem at the Postal Service is a direct result of the Postal Service's delay in arriving at an effective date for the new postage rates.

Can the rate-making process be improved? If so, how?

Under current law, the Board of Governors are not required to act within a specific time period on postal rate increases. Do you believe the Governors should be forced to act?

GAO recently issued a report on the ratemaking process and concluded that the process works reasonably well. However, we did identify opportunities to improve the ratemaking process. (See Opportunities to Improve The Ratemaking Process, GAO/GGD-84-10, April 23, 1984.) Those opportunities include (1) reducing the time it takes to settle rate cases, (2) clarifying the role of the Postal Service Governors in the ratemaking process, (3) dealing with instances of delay in data exchange

between the Postal Service and the Postal Rate Commission, and (4) clarifying the functions and role of the Officer of the Commission who represents the "general public" in the ratemaking process.

Past actions do not indicate that the Postal Service Governors should, at this time, be forced to act on rate increases or put the increases into effect within a fixed number of days after receiving the Postal Rate Commission's recommendation on the proposed increases. In keeping with the spirit of the Postal Reorganization Act, we believe the Governors should possess the latitude to decide when to increase postal rates considering the financial needs of the Service.

We must caveat our general statement, however. If the Governors disagree with a Rate Commission recommendation(s), they can return the proposal to the Rate Commission for "reconsideration." The Postal Reorganization Act does not limit the number of times the Governors can return the same proposal for reconsideration or the length of the reconsideration process. If reconsideration impedes timely implementation of new rates, we believe Congress should consider amending the Postal Reorganization Act to limit (1) the number of times a proposal can be reconsidered and (2) the length of the reconsideration process.

3. In the past GAO has endorsed the Postal Service's ZIP + 4 program with reservations. What is the current position of GAO on ZIP + 4?

The ZIP + 4 program consists of two parts: automating the mail processing system and, in conjunction with automation, using a longer ZIP Code (ZIP + 4 code) to process mail. We continue to believe that automation of the mail processing system is absolutely essential to significantly improving the Service's productivity. The Service will change the technology it will use to automate the system, going from single-line optical character readers to multiline readers. We have no basis for disagreeing with this decision. We suggest, however, that the Service not purchase new multiline readers without selecting a manufacturer by competitive tests similar to the ones used to select the manufacturers of the Phase I and Phase II optical character readers.

The single-line optical character readers (OCRs) the Service purchased originally rely on business mailers to place ZIP + 4 codes on letters. We endorsed the original ZIP + 4 program with the condition that the Service obtain reasonable assurance that enough mail would be addressed with ZIP + 4 codes to make the program cost effective. Businesses, however, have not used ZIP + 4 codes to the extent the Service envisioned and,

not seeing an immediate upsurge in that use, the Postal Service Board of Governors instructed the Service to replace the single-line technology with multiline read technology. (Some single-line OCRs will be converted to multiline technology; others will be replaced.) Multiline OCRs use an internal directory to obtain the appropriate ZIP + 4 code rather than relying on mailers to provide it.

Even with multiline technology, we believe the Service should continue to work with mailers to ensure the receipt of OCR-readable mail, and to encourage businesses to add ZIP + 4 codes to their address files. The process of adding ZIP + 4 codes to address files can improve the correctness of addresses and the format they follow. This, in turn, will enhance the automated processing of letters. Letters rejected from the automated system are processed in the more costly manual-mechanical system. Rehandling costs could be avoided and processing efficiency increased if businesses ensured that their address files were as correct as practical. Also, the cost effectiveness of the multiline readers is enhanced when mailers use ZIP + 4 codes.

4. As you know the Postal Service recently made the decision to borrow 1 billion dollars for capital investments. What are your views on Postmaster General Carlin's theory of pay-as-you-use as opposed to former Postmaster Bolger's theory of pay-as-you-go for financing capital projects?

Financing capital investments by borrowing is a prudent practice if repayment capabilities are not exceeded and needed operating cash is not negatively impacted.

5. In your statement, you state that "the Deputy Postmaster General told the Board of Governors that Regional Postmasters General and Headquarters' officials would submit 'break even' budgets for 1986." Have you seen those budgets? If no, why not? Have you had problems in the past in accessing information from the Postal Service? If yes, what is your recommendation for the alleviation of this problem?

We have not seen the Service's budget for fiscal year 1986 nor have we had difficulties in obtaining information from the Service. To monitor the Service's financial and operating progress through the year, we use the Service's monthly "Financial and Operating Statements." These summary statements, in part, compare what has occurred during and through the accounting period being reported with the budget for those same timeframes.

6. As you know, the Postal Service suffered a 200 million dollar loss in the accounting period right after last Christmas. Do you know the reason for this?

The approximately \$200 million loss occurred over the 4-week period from December 22, 1984, through January 18, 1985, and, although the Service's internal budget had forecasted a loss for the period, the size of the actual loss was roughly 3 times larger than expected. The larger loss was essentially due to a revenue shortfall but we do not know why revenue was less than expected.

A senior Service official attributed the revenue shortfall, in part, to

--a greater slowdown of business activity during Christmas and New Year's weeks compared to last year because the two holidays fell on Tuesday rather than Monday; and

--the closing of state and local government offices as well as some banks and businesses in 14 more states celebrating Martin Luther King's birthday.

7. Do you have any numbers on the amount of new employees hired in 1984-85? Can you offer any explanation for this amount? Could the need for so many new employees have been alleviated another way?

Over fiscal years 1984 and 1985 together, the Service's paid workforce increased by a net of about 65,000 employees--23,000 during fiscal year 1984 and 42,000 during fiscal year 1985--or almost 10 percent. At the end of fiscal year 1985, the Service had 744,490 paid employees.

From interviews of Service officials, two major reasons emerge for the increase. One, the volume of mail the Service had to process and deliver grew considerably and more people were needed to handle the increased volume. Total mail volume grew over 20 billion pieces during fiscal years 1984 and 1985, a better than 16 percent increase. During 1984 alone, volume grew around 12 billion pieces, or approximately 12 percent. The second reason for adding more employees was the high level of overtime required to process and deliver mail. The Service needed to reduce the high levels of costly overtime it was experiencing and, moreover, believed it could not handle the growing workload with overtime alone. Some hiring may have occurred as a result of the Service's upgrading the level of service for all second-class mail.

BEST COPY AVAILABLE

Because mail volume was not expected to decrease and overtime was at an unacceptable level, the hiring of additional employees could not have been avoided during 1984 and 1985 without allowing mail service to deteriorate--an unacceptable alternative according to the Service.

8. In your remarks, you state that the Postal Service created 22 million more workhours than they planned for. Could you please elaborate on the overtime problem at the Postal Service? Could the need for such high overtime levels been avoided? How?

Overtime provides postal management with the necessary flexibility to handle a variable workload and, when properly used, can be a cost effective management tool. However, improper use results in unnecessary costs. In April 1983, GAO issued a report expressing the need for the Service to strengthen the controls over employee overtime. Our report (GAO/GGD-83-36, April 6, 1983) was based on fiscal year 1981 data when the Service processed and delivered approximately 109 billion pieces of mail and overtime accounted for about 6.2 hours out of every 100 workhours. Three years later, in fiscal year 1984, overtime accounted for nearly 9.0 hours out of every 100 workhours and mail volume approximated 131 billion pieces. Comparing the two fiscal years, overtime use grew more than twice as fast as mail volume.

However, overtime started to decline about halfway through fiscal year 1985 even though mail volume continued to grow. The Service consciously set out earlier in the year to reduce overtime and hired more employees as a way of cutting the need for overtime. Overtime began to noticeably decline starting around April and, for the four weeks ending August 30, overtime accounted for 4.6 hours out of every 100 workhours. However, because overtime use was so prevalent during earlier months, the overtime ratio for all of fiscal year 1985 through August 30 was 8.3 hours per 100 workhours. With the hiring that has occurred, we believe the Service should be successful in curbing overtime in fiscal year 1986.

To strengthen facility managers' control over the authorization and use of overtime, which, in turn, should lower overtime, we would like to see the Service separately identify planned overtime hours in the managers' budget and workhour reports. We made such a recommendation in our April 1983 report. The Service, however, expressed reluctance about showing anticipated overtime hours in the workhour budget and reporting them on the workhour report. It believed disclosing overtime hours in the budget might do more to encourage rather than control the use of overtime.

9. In your statement, you indicate that domestic transportation costs are currently over budget. What are the reasons for this? Please be specific. Could this have been avoided?

We cannot detail the reasons the Service's domestic air transportation costs were so significantly over budget in fiscal year 1985. However, in July 1985, Service officials told the Subcommittee on Postal Operations and Services that the costs were over budget for two principal reasons. Both reasons are associated with the January 1, 1985, deregulation of domestic air transportation rates.

According to the officials, the Service had to use--to a much greater extent than planned--the more costly of its two contractual approaches (segment and system contracts) for acquiring air transportation. The officials said air carriers were reluctant to enter into 2-year segment contracts, the cheaper of the two contractual approaches, because the competitive nature of today's airline industry prohibited them from making the kinds of long-term commitments the contracts required. The officials said the second principal reason for the cost increase was due to the change in ratemaking methodology that followed deregulation. We are currently doing some limited work on the Service's air transportation activities and will attempt to crosscheck or verify the reasons the officials reported.

Additional Questions For GAO
Submitted By Chairman Leland

1. You pointed out that a great deal of turnover occurred in top positions at the Postal Service. Are you saying that this contributed to the difficulties experienced by the Postal Service in Fiscal Year 1985?

No, we did not mean to suggest that the executive level changes contributed to the Service's fiscal year 1985 difficulties. Our intention was to highlight that 1985 was a year of change for the Postal Service.

2. What suggestions would you offer the Postal Service in their efforts to lower their deficit?

The Service's 1985 deficit came about because of cost increases rather than a shortfall in revenue. The Postmaster General considers unduly high operating cost a management problem which should be amenable to a management solution and has placed control responsibilities directly on the shoulders of managers. This operating philosophy needs to be continued if the Service is going to accomplish its "break even" financial goal for 1986. For the long run, the Service needs to assure that it is using the most appropriate means to transport mail (ground versus air) and, when air transportation is used, that the least costly approach to acquiring air service is employed. Also, the Service can mitigate its labor costs and increase operational efficiency by automating its mail processing operations as much as possible. The Service's ZIP + 4 program is one step in that direction.

3. The Postal Service appeared before this Committee last June and told us that it was proceeding with procurement of single-line OCRs even though both you and the OTA had just issued reports confirming that superior multi-line technology was available at only slightly higher cost. However, they also assured us of the following, and I quote, "In addition, we plan to initiate a strategy to assure that we have the capability to convert the OCRs to multi-line reading. To do this, the Postal Service expects to establish developmental contracts with the companies providing the Phase I and Phase II OCRs. These development contracts will be issued shortly after award of the Phase II contract. They will provide for development of a technical plan of conversion, along with associated milestones and cost estimates." unquote. As you know this was not done.

Instead the Board has asked interested contractors to develop, at their own expense, conversion kits for the machines purchased under Phase II. Would you care to speculate on how the Board can possibly believe that this course of action will yield acceptable results?

(See comment following question 6.)

4. Would you comment on the Board of Governors recent decision to begin testing and bidding for multi-line OCRs that are to be delivered in May 1987?

(See comment following question 6.)

5. The Postal Service has had to revise, downward, its estimates on usage levels for the nine-digit ZIP Code. What do you feel is a realistic projection for nine-digit ZIP Code usage over the next several years?

(See comment following question 6.)

6. Based on your projections for nine-digit ZIP Code usage, what is the best course for the Postal Service and the Board of Governors to take regarding conversion of its single-line OCRs and the purchase of multi-line OCRs?

We are currently (November 1985) obtaining information which will enable us to more fully answer questions 3, 4, 5 and 6. We expect to discuss this information in testimony before the Subcommittee on Postal Operations and Services in early 1986.

7. What is the status of GAO's review of the Postal Service's decision regarding its training facility in Oklahoma, and when can we anticipate receiving a final report?

Our field work is nearing completion and we plan to provide a draft report to the Postal Service in February 1986 for review and comment. We will issue our report as soon as possible after receiving the Service's comments.

BEST COPY AVAILABLE

8. Concerning our Committee's request for a review of the working conditions at the Bulk Mail Center in Los Angeles, California, what is the status of that review?

We have nearly completed the survey or preliminary phase of our work. On November 20, 1985, we briefed the staff of the Subcommittee on Postal Personnel and Modernization on the results of this work.

Has GAO received information from the Postal Service as to when their cost-analysis on delivery of mail by the use of clusterboxes will be completed? Our Committee has requested that GAO review this cost-analysis and conduct their own investigation. Can you tell us when you anticipate beginning this investigation and approximately when we can anticipate receiving a report from GAO?

We began our review of the clusterbox program in late October 1985. After we complete the preliminary phase of our work, we will be able to say when our report should be expected. We plan to complete that phase in February 1986 if the Service furnishes the cost analysis in early January as promised.

